a pension primer

a report by the
national council of welfare

april 1984

Canada

A PENSION PRIMER

A Report by the
National Council of Welfare
on the Retirement Income System

April 1984

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FOREWORD

Pension reform is a complicated subject, even for the specialist. Canada's retirement income system is comprised of three major levels and, within each level, several elements - a foundation of federal and provincial income security programs; a second tier of public pension plans (the Canada Pension Plan and Quebec Pension Plan); and a third layer of private pension plans of varying design , Registered Retirement Savings Plans, and special tax provisions that encourage saving for retirement and lower taxes for the elderly. Most people have only a vague idea of how this complex system operates, let alone understand what is wrong with it and what can be done to set it right. Yet the outcome of the pension reform process will touch every Canadian who pays taxes, contributes to pension or savings plans, and reaches the age of retirement.

The National Council of Welfare has prepared a series of studies on the aged and the retirement income system. The reports are intended to provide the basic facts which the ordinary Canadian needs to understand and participate in the pension debate.

Financing the Canada Pension Plan explains how the Canada Pension Plan is financed and the use of surplus funds to provide loans to the provinces. It examines future demands on the CPP and proposes a move to pay-go funding and a gradual increase in contribution rates. Sixty-Five and Older looks at the past and future growth of Canada's aged population and charts trends in poverty and income statistics; the report also discusses shelter costs, subsidies and services, and the impact of income security programs for the aged.

The report that follows, A Pension Primer, is a layman's guide to Canada's retirement income system. It explains how that complex system operates and reveals its strengths and weaknesses. A companion report, Pension Reform, reviews the three major routes to pension reform; discusses the package of pension proposals contained in the February 1984 federal Budget; and offers the National Council of Welfare's recommendations for long-term reform of the retirement income system.

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INTRODUCTION

A retirement income system should perform two essential tasks. The first is to ensure that all elderly persons are assured a minimum income which will enable them to live decently and in dignity, no matter what their circumstances in their working years. The second is to maintain a reasonable relationship between an individual's income before and after retirement so that old age does not bring a drastic reduction in his or her standard of living. For convenience we refer to these as the **anti-poverty** and **income-replacement** goals of a pension system.

Canada has a three-level retirement income system. The foundation is provided by federal income security programs - the Old Age Security, Guaranteed Income Supplement and Spouse's Allowance - and various income supplements for the elderly offered by six of the ten provinces and by the territories. The Canada and Quebec Pension Plans constitute the second tier. The third level is composed of private pension plans and retirement savings schemes encouraged by special provisions in the income tax system.

Each level is intended to play its part in meeting the retirement income system's twin objectives. The primary function of the first level's income security programs is to guarantee a minimally acceptable floor of income so that no aged Canadian need live in poverty. These government programs also contribute to the income-replacement goal for elderly persons who had low or moderate incomes during their working life.

The federal and provincial governments together established the second level of the retirement income system - the Canada and Quebec Pension Plans - to ensure that all working Canadians set aside part of their earnings towards their retirement. However these public pension plans are deliberately limited in order to leave room for individual initiative through the third tier of private pension and retirement savings plans. Together the second and third levels are intended to meet the income-replacement needs of the majority of Canadians.

In **theory** Canada's retirement income system as outlined makes sense. For the majority of retired persons who lived on middle or affluent incomes during their working years, accomplishing the income-replacement objective through effective pension and savings plans automatically would fulfill the anti-poverty objective. For the minority with inadequate income during their pre-retirement years, replacing only a portion of those incomes simply would guarantee even worse poverty during retirement. Therefore a 'safety net' of income security programs is required to assure low-income citizens a secure and adequate income in their old age.

Unfortunately Canada's retirement income system in **reality** falls far short of this ideal. One pensioner in four lives below the poverty line. Many middle-income Canadians experience a sharp drop in their living standard when they retire and see their income shrink further as they grow older.

Less than half the work force enjoys access to all three levels of the retirement income system. Virtually all families and individuals who subsist on low or modest incomes during their working years have little or no source of retirement income other than income security programs and public pension plans. Many Canadians who earn average incomes during their working years also find themselves reliant upon public programs for the large part of their income in retirement because of the failure of the private part of the pension system.

The following pages provide a basic guide to Canada's retirement income system. The report describes how the pension system operates and documents its major strengths and weaknesses.

THE FIRST LEVEL: INCOME SECURITY PROGRAMS

The foundation of Canada's retirement income system is addressed to the anti-poverty objective. It consists of three federal programs to which are added various provincial supplements.

Old Age Security (OAS)

The basic income security provision for elderly Canadians is the federal Old Age Security program. The 'old age pension', as it is popularly known, provides monthly benefits to virtually all men and women aged 65 and over.

Old Age Security payments are fully indexed to the cost of living. Benefits are raised every January, April, July and October according to the increase in the Consumer Price Index.[1] For the second quarter of 1984, OAS benefits are $266.28 a month.

Old Age Security is the largest and most costly federal program for the aged. Close to two-and-a-half million Canadians receive monthly OAS cheques, and the program will pay out an estimated $8.3 billion in benefits during the 1984-1985 fiscal year. Old Age Security is financed out of federal general revenues, most of which come from income taxes.

Old Age Security benefits are taxable, so a portion of the payments to pensioners is recovered by the federal treasury at income tax time. However most elderly Canadians have modest incomes and so pay little or no income tax. As a result, only about 6 percent of the Old Age Security program's costs are recouped through the income tax system.

The taxability of Old Age security payments also produces a progressive distribution of benefits. Lower-income pensioners keep the full

amount of their OAS cheque because they are too poor to pay taxes. Higher-income elderly persons pay income tax on their OAS payments and so end up with smaller net (i.e., after-tax) benefits. The higher the income, the smaller the net OAS pension.

In order to qualify for Old Age Security, an applicant must be 65 years or older, a Canadian citizen or legal resident on the day before approval of the application, and have lived a minimum of 10 years in Canada after age 18. (Pensioners who leave the country continue to receive their OAS benefits as long as they resided at least 20 years in total in Canada after age 18). Other factors - employment history, previous earnings, other sources of retirement income, whether the person is retired or still working - are irrelevant.

Length of residence also affects the amount of Old Age Security benefit paid. Those who reach age 65 are eligible for a full OAS pension if they lived in Canada for a total of at least 40 years after their eighteenth birthday. Most pensioners fall in this category.

Elderly persons who have not resided in Canada for at least 20 years after age 18 also will receive full OAS benefits if, as of July 1, 1977, they were 25 years or older and live continuously in the country for the ten years immediately before the date their application for OAS is approved. If absent during the ten-year period, such people will qualify for full OAS benefits if they resided in Canada for periods (after age 18) that total at least three times the period spent abroad and also lived in Canada for at least one year prior to approval of their application.

Persons who do not meet these residence requirements receive a partial OAS pension. They must 'earn' their OAS benefits at the rate of 1/40th of a full monthly pension for each complete year of residence in Canada after age 18, and no benefits will be paid if they lived less than 10 years in Canada. The only exception to the ten-year residence requirement is for elderly immigrants from countries that have signed an International Social Security Agreement with

Canada. (To date agreements have been negotiated with Portugal, Greece, Italy, France, Jamaica and the United States). If their total residence in both countries after age 18 meets the ten-year regulation, they will be eligible for a partial OAS amounting to 1/40th of the maximum pension for each year they lived in Canada.

While the partial pension feature does not affect many of today's aged, it will have a drastic impact in future on men and women who immigrate to Canada. A generation from now, there will be two classes of elderly Canadians. The aged who were born here or immigrated when they were young will get full Old Age Security benefits. However most naturalized Canadians will receive only a partial OAS pension, even though they spent years working, paying taxes and otherwise contributing to the economy and society. (Therefore the February 1984 Budget has proposed that low-income pensioners with partial OAS payments receive additional GIS benefits to assure them the same guaranteed retirement income as other elderly Canadians).

Guaranteed Income Supplement (GIS)

The second federal program for the aged is the Guaranteed Income Supplement. It was established in 1967 as an income-tested supplement to the universal Old Age Security benefit and is intended to help the elderly poor who have little or no income other than their Old Age Security pension. This fiscal year (1984-1985) the Guaranteed Income Supplement will pay out close to $2.8 billion worth of benefits.

Guaranteed Income Supplement benefits are not subject to tax. Like Old Age Security, GIS payments are indexed quarterly according to the increase in the cost of living. GIS and OAS benefits are combined into one monthly cheque.

Maximum GIS benefits - which go to persons whose only other income is from the Old Age Security program - are currently $267.33 a month for a single

pensioner and a married pensioner whose spouse does not receive OAS or a Spouse's Allowance, and $412.22 a month for a pensioner couple. Payments are reduced by $1 for every $2 in other monthly income (not counting OAS) averaged over the calendar year; in the case of a married couple, each spouse is deemed to have half of their combined income. Thus some GIS benefits are available to any pensioner whose other income is less than approximately $6,400 a year and to couples whose (combined) other annual income is less than $9,900.

Table 1 shows how the Guaranteed Income Supplement program operates. The rates are for the second quarter of 1984 (April through June) and the amount of other income (excluding OAS) and GIS are shown on a monthly basis.

Table 1

Monthly Guaranteed Income Supplement Benefits, April - June 1984

Single Pensioner: Average Monthly Other Income*	Single Pensioner: GIS	Pensioner Couple: Average Monthly Other Income*	Pensioner Couple: GIS
$ 0	$267.33	$ 0	$412.22
50	242.33	100	362.22
100	217.33	200	312.22
200	167.33	400	212.22
300	117.33	600	112.22
535 and over	0.00	825 and over	0.00

* excluding OAS

A single pensioner with no income other than OAS will receive $267.33 a month in GIS payments. If he or she has $100 in other income (e.g., from the C/QPP, a private pension plan, interest from investments, employment earnings), GIS benefits are reduced by $50 a month (i.e., 50 percent of $100). Once the amount of other income reaches $535 a month, a pensioner is no longer eligible for the Guaranteed Income Supplement. The amounts differ, but the pattern is

the same for pensioner couples: the more income they receive from sources other than OAS, the smaller their GIS benefit.

Over 1.2 million men and women - half the elderly population - receive the Guaranteed Income Supplement in addition to their Old Age Security benefit. One in four who get the GIS - 304,000 aged Canadians - are so poor they qualify for the full amount.

Single pensioners are heavily dependent on the Guaranteed Income Supplement; 65 percent receive the GIS, compared to only 43 percent of the elderly who are married. Table 2 shows that at last count 686,335 GIS recipients - 55.0 percent of the total - were paid at the single rate (i.e., they are single or married with a spouse who does not get OAS or the Spouse's Allowance). The proportion of pensioners receiving GIS at the single rate who qualify for the maximum benefit (31.6 percent) is double that of couples (15.5 percent). The majority (71.3 percent) of GIS benefits delivered at the maximum amount goes to pensioners who are paid the single rate.

Table 2

GIS Recipients, Maximum and Partial Rate, By Type of Marital Status Payment, January 1984

	Maximum Benefit	Partial Benefit	Total
Single Rate	216,768	469,567	686,335
Row %	31.6%	68.4%	100.0%
Column %	71.3	49.8	55.0
Married Rate	87,234	474,085	561,319
Row %	15.5	84.5	100.0
Column %	28.7	50.2	45.0
Total	304,002	943,652	1,247,654
Row %	24.4	75.6	100.0
Column %	100.0	100.0	100.0

Since women make up the large majority of the unattached aged and have lower incomes on average than men, it is not surprising that women benefit substantially from the Guaranteed Income Supplement. Fifty-six percent of women 65 and older receive the GIS, as opposed to 49 percent of elderly men. Table 3 shows that six in ten GIS recipients are women, and a larger proportion of women than men receive the maximum benefit.

Table 3

GIS Recipients, Maximum and Partial Rate, by Sex, June 1983

	As Percentage of GIS Recipients	Percentage at Maximum Rate	Percentage at Partial Rate
Women	61.0%	26.6%	73.4%
Men	39.0	21.8	78.2

The proportion of elderly Canadians who receive the Guaranteed Income Supplement varies considerably across the country. Eight in ten pensioners living in Newfoundland and the Northwest Territories qualify for the GIS in addition to their Old Age Security benefit. Over 60 percent of pensioners in the other Atlantic provinces and in Quebec benefit from the GIS. However in Ontario, Saskatchewan, Alberta, and British Columbia, less than half the aged get the GIS. Table 4 gives the number of persons in each province and territory in receipt of the Old Age Security, Spouse's Allowance and Guaranteed Income Supplement.

There is also wide variation among the provinces in the proportion of Guaranteed Income Supplement beneficiaries who receive the maximum payment. Table 5 shows that a much higher percentage of GIS recipients in the Yukon and Northwest Territories qualify for the full benefit. Quebec and Atlantic Canada also have an above-average percentage of pensioners who qualify for GIS benefits at the maximum rate because their income is so low.

Table 4

Number of Persons Receiving Old Age Security, Guaranteed Income Supplement and Spouse's Allowance, by Province, January 1984

	OAS	SA	GIS	GIS Percentage
Newfoundland	47,285	3,569	37,701	79.7%
Prince Edward Island	15,513	754	10,743	69.3
Nova Scotia	98,146	4,813	62,593	63.8
New Brunswick	75,176	4,038	49,021	65.2
Quebec	607,375	27,744	375,057	61.8
Ontario	905,662	24,768	373,557	41.3
Manitoba	127,112	4,325	63,704	50.1
Saskatchewan	121,984	3,888	59,267	48.6
Alberta	170,356	5,418	80,451	47.2
British Columbia	311,789	8,576	132,404	42.5
Yukon	752	20	380	50.5
Northwest Territories	1,335	74	1,075	80.5
CANADA	2,486,086	88,042	1,247,654	50.2

Table 5

Guaranteed Income Supplement Recipients, Maximum and Partial Rate, by Province, January 1984

	Maximum	Partial
Newfoundland	41.7%	58.3%
Prince Edward Island	27.2	72.8
Nova Scotia	27.7	72.3
New Brunswick	29.8	70.2
Quebec	29.6	70.4
Ontario	18.5	81.5
Manitoba	19.3	80.7
Saskatchewan	22.3	77.7
Alberta	22.9	77.1
British Columbia	21.0	79.0
Yukon	55.8	44.2
Northwest Territories	76.4	23.6
CANADA	24.4	75.6

Spouse's Allowance (SA)

In 1975 the federal government brought in the Spouse's Allowance to guarantee an income equal to the combined Old Age Security/Guaranteed Income Supplement for low-income couples one of whose members is receiving GIS and whose other member (the SA recipient) is aged between 60 and 64. Maximum Spouse's Allowance benefits are currently $472.39 (which is the sum of an OAS pension plus maximum GIS at the married rate) and are indexed quarterly. Like GIS, benefits are reduced by a portion of other income and are not taxable.[2]

When the Spouse's Allowance was introduced, recipients were cut off if the older spouse died, and they were not eligible for any federal benefits until they reached 65. In 1979 the program was amended to allow recipients who become widowed to continue receiving an allowance until age 65.

The Spouse's Allowance is the smallest of the three federal income security programs for the aged. In January of 1984, 88,042 people (over 90 percent of them women) received the Spouse's Allowance. The program will pay out an estimated $279 million in benefits in 1984-1985.

The flaw in the Spouse's Allowance is that it helps some near-aged Canadians but excludes others equally in need of financial assistance. Take the example of three poor single women aged between 60 and 65. One enjoys a Spouse's Allowance of $472.39 each month because her late husband had received GIS benefits and she had qualified for the Spouse's Allowance before he died. The second woman is also a widow struggling to get by on a low income, but she is not eligible for the program because her husband died when she was 59 or he was not yet 65 (in either case she would not qualify for federal assistance). The third woman is poor but was never married; she cannot receive a Spouse's Allowance because she was never a spouse.

The widow on Spouse's Allowance is certainly not well off. She receives $61 less a month than she would get from OAS/GIS, and her Spouse's Allowance will total about $5,700 in 1984 - well below the estimated poverty line of $9,900 for a metropolitan center like Vancouver, Toronto or Montreal. However low-income near-aged women who do not qualify for a Spouse's Allowance are considerably worse off. Only about one in three is in the labor force, so most have to turn to provincial social assistance (welfare) which pays substantially lower benefits than the Spouse's Allowance. In Ontario, for example, welfare rates for a single person are about one-third below the Spouse's Allowance.

Provincial Income Supplements

Elderly persons living in six provinces (Nova Scotia, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia), the Yukon and the Northwest Territories are eligible for additional income from provincial supplements for the aged. These vary considerably from province to province in amount and frequency of payment.

Alberta, the Yukon and the Northwest Territories provide the most generous income supplement programs for their elderly citizens. In 1984 a low-income single pensioner receives up to $1,200 in the Yukon, $1,140 in Alberta and $900 in the Northwest Territories over and above federal OAS/GIS benefits. Aged couples get a maximum of $2,400 in the Yukon, $2,280 in Alberta and $1,800 in the Northwest Territories. Low-income pensioner couples in Ontario and British Columbia also qualify for sizeable provincial income supplements.[3]

Table 6

Provincial Income Supplements for the Aged, 1984

	Maximum Annual Benefit	
	Single Person	Couple
Nova Scotia	$ 219	$ 438
Ontario	706	1,996
Manitoba	188	405
Saskatchewan	300	540
Alberta	1,140	2,280
British Columbia	467	1,196
Yukon	1,200	2,400
Northwest Territories	900	1,800

As a percentage of federal OAS/GIS benefits, the provincial supplements vary from only 3 percent for a single pensioner and 4 percent for a couple in Manitoba to 18 percent for a single person and 21 percent for a couple in the Yukon.

Like the Guaranteed Income Supplement, the provincial and territorial supplements are income-tested (in British Columbia and Nova Scotia there is an additional test of assets) and are generally available to all persons aged 65 or over, though Manitoba's supplements are paid to retired persons 55 and older, Alberta also offers a special pension to widowed persons 55 to 64, and British Columbia makes its supplement available to those 60 and over. Ontario, Saskatchewan, Alberta, British Columbia, the Yukon and the Northwest Territories pay their supplements on a monthly basis; Manitoba's supplement for the aged is distributed quarterly, while Nova Scotia makes a lump-sum payment in May of each year. Unlike the federal programs, the provincial supplements for the aged are not indexed to the cost of living.

Provincial supplements are a welcome addition to the income of the elderly poor fortunate enough to live in provinces which offer them. However the supplements can be faulted for favoring couples over single pensioners.

In Nova Scotia, Alberta, the Yukon and the Northwest Territories, each pensioner receives the same amount whatever his or her marital status, so that the supplement for eligible couples is twice the amount for the single aged. Three provinces - Ontario, Manitoba and British Columbia - pay couples more than twice the supplement for single pensioners. Only Saskatchewan provides a proportionately larger benefit to a single pensioner (a single pensioner gets 56 percent of a couple's supplement).

While all poor elderly Canadians need income assistance, it can be argued that provincial supplements should adjust their rates so that a single pensioner receives a larger benefit than each member of an elderly couple. As we shall see later in this chapter, the federal OAS and GIS programs bring many couples above the poverty line but leave single pensioners substantially

below the poverty line. Provincial supplements which pay elderly couples double or more the benefit for the single aged widen further the income gap between elderly singles and couples.

Provincial Tax Breaks and Shelter Assistance

The provinces offer the elderly various forms of tax rebates, exemptions and credits which lessen their tax burden and thus increase their disposable income. Appendix A gives a brief description of tax provisions for the aged in each province.

Every province reduces property and/or school taxes for elderly homeowners, and some also offset rental costs under the same program. In some cases these measures are reserved for the aged, while others are available to the wider population. Some provinces gear their programs to lower-income pensioners, while others make them available regardless of financial circumstances. The maximum benefit is in the $500 to $600 range in most provinces.

Ontario also offers its elderly residents a $50 rebate for retail sales tax. Manitoba provides a refundable cost of living tax credit worth up to $194 a year.

Appendix B lists additional forms of provincial financial assistance for the aged. Several provinces offer subsidies for their elderly citizens who have low incomes and pay a large proportion of their income on rent. Quebec's Logirente program subsidizes 75 percent of the amount that shelter costs (rent or mortgage interest payments) exceed 30 percent of income, with limits on both the amount of the subsidy ($97.50 a month per single person and $110.00 for couples) and income (single persons with incomes above $9,400 and couples with $10,000 or more are not eligible). Several other provinces operate programs similar to Quebec's.

An Assessment

The federal income security programs currently assure poor single Canadians aged 65 or over an income of $533.61 a month ($266.28 from Old Age Security payments and $267.33 from the Guaranteed Income Supplement). Low-income couples with at least one member aged 65 or over are guaranteed $944.78 a month, provided the other member is at least 60 years old. Moreover a few widows and widowers aged between 60 and 65 - but by no means all - are assured an income of $472.39 a month from the Spouse's Allowance. (These figures are for April through June, 1984).

Table 7 on the next page shows the combined maximum benefits in 1984 from the federal programs plus the various provincial supplements. (The table does not include provincial refundable tax credits mentioned earlier to which the aged might be entitled. Eligibility for these credits is affected by whether a person is a homeowner or a renter, by the amount of his/her shelter costs and by other factors, so there is no 'average' amount which can be added in without seriously distorting the data). Our calculations take into account the $50 increase in the monthly GIS rate for the single elderly and one-pensioner couples ($25 in July and another $25 in December of 1984) announced in the February 1984 Budget.

Table 7

Maximum Benefits from Federal Programs for the Aged and Provincial Supplements, 1984

	Single Persons			Couples		
	Federal Programs*	Provincial Supplements	Total	Federal Programs*	Provincial Supplements	Total
Newfoundland	$ 6,634	-	$ 6,634	$11,435	-	$11,435
Prince Edward Island	6,634	-	6,634	11,435	-	11,435
Nova Scotia	6,634	$ 219	6,853	11,435	$ 438	11,873
New Brunswick	6,634	-	6,634	11,435	-	11,435
Quebec	6,634	-	6,634	11,435	-	11,435
Ontario	6,634	706	7,340	11,435	1,996	13,431
Manitoba	6,634	188	6,822	11,435	405	11,840
Saskatchewan	6,634	300	6,934	11,435	540	11,975
Alberta	6,634	1,140	7,774	11,435	2,280	13,715
British Columbia	6,634	467	7,101	11,435	1,196	12,631
Yukon	6,634	1,200	7,834	11,435	2,400	13,835
Northwest Territories	6,634	900	7,534	11,435	1,800	13,235

* Old Age Security and Guaranteed Income Supplement

The immediate reason for the high rate of poverty among Canada's aged becomes evident when the benefits from the federal and provincial programs are compared with the poverty line. The results are shown in Table 8. Figures with negative signs are below the line, while those without a negative sign indicate amounts above the poverty line.

Table 8

Difference Between the Basic Income Guaranteed to the Aged and the Poverty Line, 1984

	Single Persons	Couples
St. John's, Newfoundland	- $2,769	- $ 961
Charlottetown	- 1,520	702
Halifax	- 2,550	- 523
St. John, New Brunswick	- 2,769	- 961
Montreal	- 3,266	- 1,627
Toronto	- 2,560	369
Winnipeg	- 3,078	- 1,522
Regina	- 2,469	- 421
Edmonton	- 2,126	653
Vancouver	- 2,799	- 431

The poverty lines used in Table 8 are National Council of Welfare estimates of Statistics Canada's revised (1978 base) low income cut-offs for 1984, which vary by family and community size.[4] For cities with half a million or more residents, the estimated poverty line is $9,900 for persons living alone and $13,062 for couples; five of the cities shown in Table 8 (Montreal, Toronto, Winnipeg, Edmonton and Vancouver) fall in this category. The estimated low-income lines for St. John's, Halifax, St. John and Regina are $9,403 for one person and $12,396 for a family of two. Charlottetown has fewer than 30,000 inhabitants and an estimated poverty line of $8,154 for one and $10,733 for a couple.

Government income security programs keep elderly couples in Charlottetown, Toronto and Edmonton above the poverty line. However couples in the other major Canadian cities listed in Table 8 fall from $400 to $1,600 below the poverty line depending on where they live.

Within each province, the difference between income security benefits for aged couples and the poverty line varies according to community size, for the simple reason that the poverty line is set higher for larger centers and lower for smaller cities, towns and rural areas (there are five size categories). In Manitoba, for instance, the poverty gap for elderly couples is $1,522 for Winnipeg (a city of more than 500,000). However the low-income line for communities of 30,000 to 100,000 residents is lower than the benefits available from federal and Manitoba programs, so elderly couples are guaranteed an income $274 above the poverty line; aged couples in centers under 30,000 are $1,107 over, and those in rural areas are $2,271 above the estimated poverty line.

Most elderly Canadians live in larger urban areas (100,000 or more residents). Federal and provincial income security programs assure elderly couples living in larger urban centers a basic income above the poverty level only in two provinces - Ontario and Alberta. Aged couples in British Columbia cities with 100,000 to 500,000 are just $235 above the poverty line, but those in Vancouver are over $400 below the line. In all the other provinces, elderly couples in larger cities are hundreds of dollars below the poverty line.

Single elderly Canadians are much worse off than aged couples. Even in provinces such as Alberta and Ontario, which offer relatively generous supplements to the basic income from Old Age Security and the Guaranteed Income Supplement, the aged who live alone remain under the low-income line in all communities - in most instances thousands of dollars below. Appendices C and D show the difference between income security benefits and the poverty line for aged singles and couples in different sized communities in each province.

It is clear that the federal and provincial income security programs that make up the first level of the retirement income system do not adequately meet the anti-poverty objective. Nonetheless they are crucial to the large majority of elderly Canadians, and without them poverty would be much more widespread and severe.

In 1981, the federal Old Age Security and Guaranteed Income Supplement and provincial supplements accounted for 36 percent of the income of elderly couples (in which both spouses were 65 or older) and 43 percent of the income of the unattached aged. Low-income elderly Canadians are heavily reliant on government. In 1981, federal and provincial income security programs made up 82 percent of the income of aged couples living below the poverty line and 79 percent of the income of poor single aged persons.[5]

While current benefits are not sufficient to bring all the aged up to the low-income line, over the years improvements to federal income security programs have played a vital role in improving the income of the elderly and reducing the extent of poverty. Starting in 1966, the age of eligibility for Old Age Security was lowered by one year each year until it reached the current 65 in 1970. A 1972 amendment to the Old Age Security Act escalated benefits each year to the increase in the cost of living as measured by the Consumer Price Index. The federal government made two important changes to the program in 1973. The monthly payment was increased by 20 percent in April and, beginning in October, benefits were fully indexed to the cost of living on a quarterly basis.

The Guaranteed Income Supplement came into effect in January of 1967. Like Old Age Security, the Guaranteed Income Supplement was fully indexed to the cost of living starting in October 1973. In addition, Ottawa has substantially boosted benefits several times since the Guaranteed Income Supplement began: in April 1971 (by 64 percent for singles and 41 percent for couples), January 1972 (22 percent for singles, 26 percent for couples), January 1979 (19 percent for single pensioners, 11 percent for couples) and July 1980 (25 percent for singles, 16 percent for couples). The February 1984 Budget announced a $50 monthly increase for single GIS recipients during 1984.

These changes have raised the value of Old Age Security and Guaranteed Income Supplement benefits to elderly Canadians over the years. A single pensioner eligible for Old Age Security and the maximum Guaranteed Income Supplement received $1,260 in 1967, or about $4,057 in 1983 dollars. By 1983, annual benefits from the two programs had risen to $6,147, which represents a sizeable real increase of 52 percent over 1967. The value of the OAS/GIS for two-pensioner families (a maximum of $10,883 for 1983) went up 34 percent between 1967 and 1983. The fact that benefits are fully indexed to the cost of living is crucial; without this protection, the incomes of most elderly Canadians would have been seriously eroded during the period 1974 to 1982 when inflation averaged 10 percent a year.

While Old Age Security plays a vital role in helping ensure a basic income for the large number of poor elderly Canadians, it also contributes to the retirement income system's income-replacement goal. However the OAS program replaces a smaller proportion of retirement income today than in the past.

In 1964, Old Age Security benefits amounted to 20 percent of the average industrial wage, but that proportion fell to just under 14 percent by the mid-'seventies and has remained around that level ever since. The decline was due to the fact that average earnings have risen more overall than OAS rates since 1964.

The history of Old Age Security rates is rather convoluted. From 1964 to 1967, OAS benefits were not increased. Between 1968 and 1970, rate increases were limited to a maximum of 2 percent a year, and benefits in 1971 were only fractionally higher than in 1970. Starting in January of 1972, the OAS was fully indexed to the cost of living. Benefits were boosted 15 percent (above the normal inflation compensation factor) in April of 1973, and in October the current formula of quarterly increases according to the Consumer Price Index was introduced.[6]

Table 9

Old Age Security and Average Industrial Wage, 1964 to 1984

	OAS	Average Industrial Wage	OAS/Average Industrial Wage
1964	$ 900	$ 4,499	20.0%
1966	900	5,008	18.0
1968	918	5,716	16.1
1970	955	6,593	14.5
1972	995	7,759	12.8
1974	1,345	9,261	14.5
1976	1,634	11,858	13.8
1978	1,904	13,798	13.8
1980	2,272	16,504	13.8
1981	2,541	18,475	13.8
1982	2,842	20,321	14.0
1983	3,066	21,700	14.1
1984	3,220	22,800*	14.1*

* estimates

Between 1964 and 1983, OAS benefits increased by 241 percent. Average wages rose even more - 389 percent - during the same 19-year period. As a result, OAS benefits constitute a smaller proportion of average earnings now than in 1974. However the percentage has remained around 14 percent since the mid-'seventies because average wages and the cost of living have increased roughly the same.

THE SECOND LEVEL: THE CANADA AND QUEBEC PENSION PLANS

The second level of the retirement income system is made up of the Canada Pension Plan, which operates everywhere except Quebec, and the Quebec Pension Plan. Since the two plans are almost the same, they will be described as though they are one, though important differences will be noted.

The Canada/Quebec Pension Plan was established in 1966. It was recognized that private pension plans and personal savings on their own could not fully met the income needs of all retired Canadians, so the federal and provincial governments agreed to set up a publicly-administered scheme that would ensure a basic level of replacement income to supplement the private part of the retirement income system. Together public and private pension plans are supposed to ensure that Canadians set aside enough earnings during their working years to enjoy an adequate income upon retirement.

Every person between the ages of 18 and 65 who is in the paid labor force - whether an employee or self-employed, working full-time or part-time - is required by law to make contributions to the Canada/Quebec Plan. Those who work past the normal retirement age of 65 are allowed to continue contributing to the C/QPP until they reach 70, after which they can no longer pay into the plan. Contributions are calculated as 1.8 percent of an employee's contributory earnings and are matched by an equal payment from the employer. Self-employed persons must pay both the employee's and the employer's share - a contribution rate of 3.6 percent.

Canada and Quebec Pension Plan contributions are levied not on total earnings, but rather on a band of earnings ('contributory earnings') between an annually specified minimum (the 'year's basic exemption') and maximum (the 'year's maximum pensionable earnings'). For 1984 the basic exemption is $2,000

and the limit on pensionable earnings is $20,800. Employees and employers do not pay contributions on earnings below $2,000 or above $20,800.

Someone with $12,000 in wages, for example, will pay $180.00 in Canada/Quebec Pension Plan contributions this year (1.8 percent of $10,000, which is the difference between $12,000 and $2,000) and his employer must match this amount. An employee earning $25,000 will have $338.40 in C/QPP contributions deducted from his or her pay (1.8 percent of the difference between maximum pensionable earnings of $20,800 and the basic exemption of $2,000). Everyone above $20,800 pays the same $338.40 in C/QPP contributions, no matter how high his or her earnings.

One final term must be introduced to understand how the Canada/Quebec Pension Plan works. 'Pensionable earnings' are an individual's contributory earnings (income on which contributions are paid) plus the year's basic exemption. In the first example above, pensionable earnings are $12,000 ($10,000 plus $2,000). In the second case, pensionable earnings are $20,800 ($18,800 plus $2,000); since this amount cannot be any higher, it is known as 'maximum pensionable earnings'.

Since these terms may be unfamiliar, they are illustrated in pictorial form. Figure A depicts an employee earning $12,000 in 1984.

The maximum C/QPP pension which is payable in any given year is equal to 25 percent of the average of the maximum pensionable earnings for that year and the two preceeding years. For 1984 this comes to $387.50 a month, or $4,650 for the year.

An individual's retirement pension is equal to 25 percent of the average of his pensionable earnings during his working life. For anyone who was 18 years or older when the C/QPP began in 1966, 'working life' means between 1966 and his 65th birthday; for everyone else, it means between their 18th and 65th birthday.

To take inflation fully into account, pensionable earnings from previous years are adjusted when the calculation is made at the time of retirement to make past wages comparable with current wages. The lifetime average, therefore, is unaffected by changes in earnings due purely to inflation. This inflation-proofing feature is one of the C/QPP's major advantages over most private pensions.

A worker who has earned as much or more than the limit on pensionable earnings each year from age 18 to 65 will receive the maximum pension. Someone who earned half of the maximum pensionable earnings each year will receive half of the maximum pension when he retires.

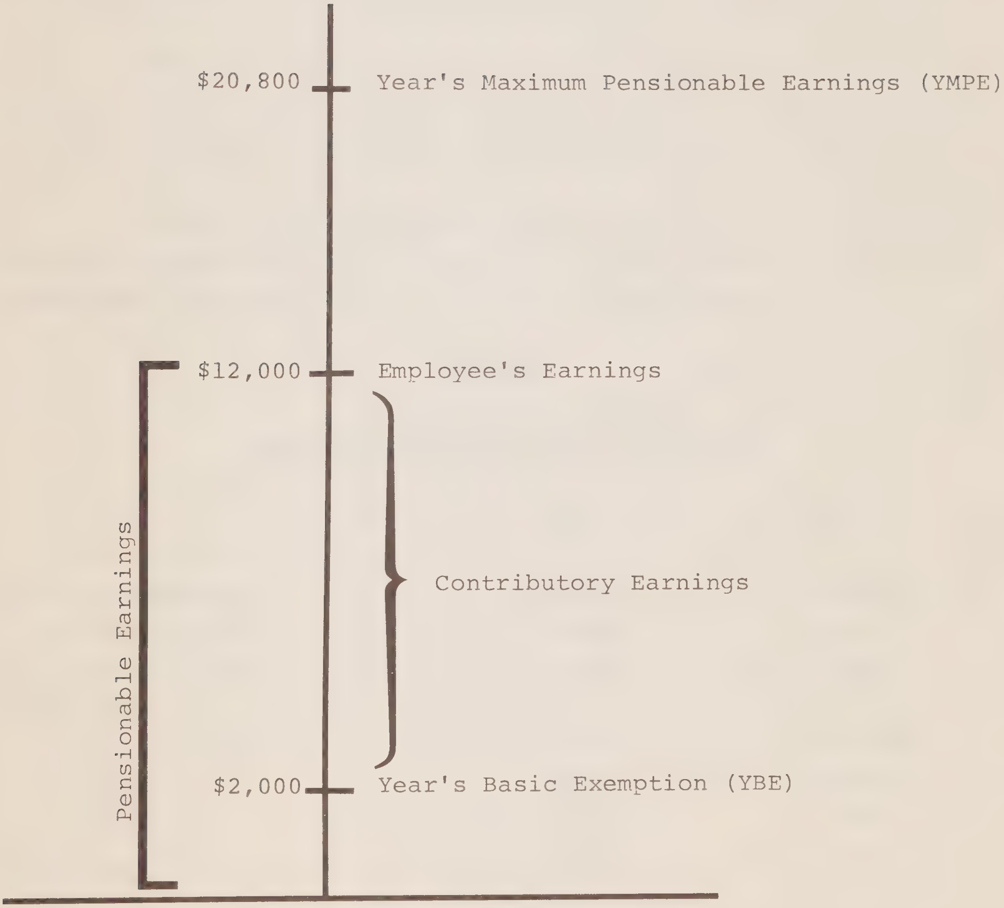
The lifetime average on which the C/QPP retirement pension is based is calculated as the years a worker could have been in the labor force between the ages of 18 and 65, not his or her actual working life. Thus someone who earns more than maximum pensionable earnings but works for only 20 years likely will receive less than a maximum retirement pension. However there are several rules which allow certain periods of zero or low earnings to be excluded from the lifetime average.

So as not to penalize people for periods of little or no income due to unemployment, illness, attendance at school or other such reasons, there is a rule that allows periods of no or low earnings - up to 15 percent of an individual's working life - to be disregarded (or 'dropped out') in calculating the lifetime average. (This provision applies only to those who have contributed at least ten years to the C/QPP).

In addition, a contributor can deduct each month he or she received a disability pension from the C/QPP (available to the severely disabled) from the lifetime average. Those who work and contribute to the C/QPP beyond age 65 can substitute months of pensionable earnings past 65 (up to 70) for months of no or low earnings before 65 in order to improve their lifetime average.

FIGURE A

C/QPP TERMINOLOGY



The Canada/Quebec Pension Plan has an additional feature which is known as the childrearing drop-out provision. It permits parents - generally mothers - who remain at home to care for children aged under 7 (or who work part-time instead of full-time) to exclude those years of low or no income from the calculation of average lifetime earnings. This admirable provision means that a parent is not penalized - through a sharply reduced pension - for leaving the paid labor force or switching to a part-time job for a few years to raise young children. The Quebec Pension Plan has offerred the childrearing drop-out feature since 1977 and the Canada Pension Plan finally adopted it in 1983.

Another good feature of the C/QPP is that pension payments are indexed annually according to the increase in the cost of living. Benefits are subject to income tax, though contributions are deductible from taxable income.

In addition to a retirement pension, the C/QPP provides benefits to surviving spouses and children, a death benefit and a pension in case of severe disability. The maximum payments for 1984 are listed below.

Table 10

Maximum Benefits Payable Under the Canada and Quebec Pension Plans, 1984

	CPP	QPP
Retirement Pension	$ 387.50	$ 387.50
Disability Pension	374.50	505.57
Children and orphans	83.87	29.00
Surviving Spouses		
a) 65 and over	232.50	232.50
b) 55 to 64	229.18	420.31
c) under 55	229.18	360.25
Death Benefit	2,080.00	2,080.00

Surviving spouses aged 65 and over receive 60 percent of the contributor's retirement pension; the maximum benefit in 1984 is $232.50 a month or $2,790 for the year. The maximum monthly benefit for surviving spouses under age 65 is $229.18 from the CPP. Under the QPP, a surviving spouse between 55 and 64 can get up to $420.31 a month, while the maximum benefit for a surviving spouse under 55 is $360.25 a month. An orphan's benefit of $83.87 a month under the CPP and $29.00 from the QPP is paid on behalf of each unmarried child up to age 18 (or to age 25 for a student). The death benefit is a lump-sum payment calculated as 10 percent of the deceased contributor's earnings in his or her last year up to a maximum of $2,080 in both the CPP and QPP.

A disability pension - available only to those with a "severe and prolonged disability" that prevents them from regularly "pursuing any substantially gainful occupation" - is calculated as a flat-rate portion paid to all eligible persons plus a variable portion equal to 75 percent of the retirement pension to which the individual would be entitled if he were 65.[7] For 1984, the maximum disability pension is $374.50 a month under the Canada Pension Plan and $505.57 from the Quebec Pension Plan (which has a higher flat-rate payment). The CPP pays $83.87 a month and the QPP $29.00 monthly on behalf of each child of a disabled contributor.

Most C/QPP beneficiaries receive less than the maximum amount, so average benefits are more indicative of the real financial impact of these plans. Table 11 shows average benefits for persons who became eligible for Canada and Quebec Pension Plan retirement pensions in August 1983.

As the figures show, the Canada and Quebec Pension Plans currently pay very modest retirement pensions. The average benefit paid to persons who began to receive a CPP retirement benefit in August of 1983 was $238.02 and a similar $233.19 for a QPP pension. Their retirement pension for the year amounted to about $2,800.

Table 11

**Average C/QPP Retirement Pension,
New and All Pensioners, August 1983**

Monthly Payment	CPP	QPP
New pensioners	$238.02	$233.19
All pensioners	195.51	199.06

The figures for all those receiving C/QPP retirement pensions - both new and old beneficiaries - are even lower. The average CPP pensioner got $195.51 a month, and the average QPP pensioner received $199.06. These results reflect the large number of older pensioners who were eligible only for reduced benefits when the C/QPP was introduced in 1966, and the fact that full benefits have been available only since January 1976. (There are also many older elderly persons who are not eligible for the C/QPP because they retired before the plans came into effect.)

Women fare worse than men - a reflection of their lower average earnings and the likelihood of not having worked in the paid labor force full-time or for as long and regular a period as men. The average pension for women who drew their first retirement benefit in August of 1983 was $169.50 - only 60 percent of the average new male pensioner's payment. There is a similar gap in the average retirement pension for all men and women. Table 12 gives the statistics.

Table 12

Average CPP Retirement Pension, New and All Pensioners, by Sex, August 1983

Monthly Payment	Women	Men	Women/Men
New pensioners	$169.50	$280.63	60%
All pensioners	148.90	220.99	67

The pension gap between men and women shows up distinctly when we look at the distribution of pensioners according to the size of their pension. As Table 13 demonstrates, women are much more likely than men to receive small pensions.

In September of 1983 more than half (55.1 percent) of the 343,546 women with CPP retirement pensions got cheques worth under $150. Almost twice as many men received CPP retirement pensions and only 28 percent got less than $150 a month. Three in every ten male CPP beneficiaries enjoyed a pension cheque worth $300 or more; the comparable figure for women was only one in ten. (The QPP shows a similar pattern: only 83,398 women but 191,395 men received QPP retirement pensions in December of 1982, and of those women 51.0 percent got under $120 and only 3.0 percent more than $300).

Table 13

CPP Retirement Pensions, by Amount and Sex, September 1983

Monthly Pension	Women	Men
Under $150.00	55.1%	28.0%
$150.00 - $199.99	12.7	10.8
200.00 - 249.99	11.3	12.6
250.00 - 300.00	10.4	17.5
300.00 or more	10.5	31.1
Total	100.0	100.0
Total Pensioners	343,546	646,185

Table 14 shows the number of C/QPP retirement pensioners, their average pension and their number as a proportion of the elderly in each province and territory in June, 1983.

Table 14

C/QPP Retirement Pensioners, By Province, June 1983

	Number of Pensioners	Average Pension	As Percentage of Aged
Newfoundland	17,139	$179.40	36.8%
Prince Edward Island	6,870	156.85	44.3
Nova Scotia	45,535	187.91	46.9
New Brunswick	34,630	179.85	47.0
Quebec	291,073	199.00	48.2
Ontario	478,673	203.30	52.3
Manitoba	66,778	181.46	52.6
Saskatchewan	61,054	177.76	49.9
Alberta	89,403	187.16	51.4
British Columbia	162,538	195.95	51.0
CANADA	1,258,056	194.65	50.4

The Canada and Quebec Pension Plans currently make only a limited contribution to the income-replacement goal of the pension system. The maximum C/QPP retirement benefit ($387.50 a month or $4,650 a year) replaces just one-fifth of average industrial earnings. In the case of a retired person who became eligible for an average new CPP pension in January 1984, combined benefits from OAS, GIS and CPP amounted to $662 - only one-third the average industrial wage and $1,900 below the poverty line for metropolitan areas.

The CPP made up only 40 percent of the income from public programs - the same as the Old Age Security benefit - and the Guaranteed Income Supplement contributed substantially to the pensioner's public retirement income. Persons who were low-wage earners during their working years receive smaller-than-average C/QPP pensions, so their total retirement income (and the share coming from the C/QPP) is even less.

Table 15

Retirement Income from Public Sources, Average New CPP Pensioner, January 1984

	Amount	Percentage
OAS	$ 264	39.9%
GIS	133	20.1
CPP	265	40.0
Monthly total	$ 662	100.0%
Annual total	7,944	
Poverty line	9,900	
Average industrial wage	22,800	

In future the C/QPP will provide somewhat better average pensions as the programs 'mature'. The limit on pensionable earnings (currently $20,800) is being increased by 12.5 percent each year until it reaches the average industrial wage (an estimated $22,800 for 1984), after which it will be indexed according to increases in the average wage. (The February 1984 Budget has proposed that the formula be amended to ensure that the YMPE reaches the average industrial wage by January 1, 1987). Raising the level of income on which C/QPP pensions are based will mean higher average benefits.

The plans also are maturing in the sense that more and more elderly Canadians are eligible for C/QPP retirement pensions. When the C/QPP began in

1966, persons already retired were not eligible for membership; those aged 56-69 who were still working could contribute to the plans, but they qualified only for reduced benefits upon retirement. Full pensions have been available since January of 1976, and a growing proportion of the elderly population is receiving monthly C/QPP cheques.

Both the number of C/QPP pensioners and the payments made under the plans are increasing rapidly. In March of 1967, only 4,586 Canadians - less than one-half of one percent of the elderly - received C/QPP retirement pensions, but by June of 1983 that figure had increased to 1,258,056 or half of persons aged 65 and older. In the 1970-71 fiscal year the C/QPP paid out $53,012,000 in retirement benefits, which represents only 2.8 percent of the payments made under the OAS and GIS. By 1982/83, C/QPP retirement benefits had reached $2,563,947,000 or 21.4 percent of payments to the elderly under federal income security programs. C/QPP retirement payments will amount to around half of OAS/GIS payments by 1985.

In years to come, then, the C/QPP will play a stronger role in meeting the income needs of the average retired Canadian, though the current replacement limit of one-quarter of pensionable earnings constitutes a built-in limitation of the plans. However there are two lower-income groups that cannot now or in the future count on the C/QPP in its present form for more than a relatively small fraction of their retirement income - women and the working poor.

In 1981 there were approximately 412,000 families and unattached individuals under the age of 65 who can be classed as working poor: they receive most of their income from employment, yet remain below the poverty line. About 133,000 or just under one-third of working poor family units are headed by persons under the age of 25; some of these young workers can look forward to better paying jobs after they gain educational credentials and/or employment

experience. For those who cannot, and for the 279,000 working poor family units with heads over the age of 25, most if not all of their working years will bring inadequate earnings because of low wages and/or chronic unemployment. The same can be said for many 'near-poor' workers earning just above the low-income line.

The C/QPP is (up to a point) earnings-related, so lower-wage workers receive smaller pensions than middle and upper-income employees when they retire. Someone earning an average of half the average industrial wage during his or her working life (an estimated $11,400 in 1984) will receive a C/QPP retirement pension worth half the maximum ($193.75 a month in 1984 terms). Even though half this amount is deducted from the Guaranteed Income Supplement, the pensioner still will get a substantial 27 percent of retirement income from the GIS. In fact the C/QPP pension will amount to only 31 percent of total retirement income - most of which will come from the income security programs that make up the first level of the pension system.

Table 16

Retirement Income from Public Sources, Lower-Wage Earner, January 1984

	Amount	Percentage
OAS	$263.78	42%
GIS	168.72	27
C/QPP	193.75	31
	$626.25	100%

Women's inferior position in the labor force weakens the capacity of earnings-related pension plans to provide them adequate income in retirement.

In part their problems are the same as those experienced by lower-wage workers in general - indeed, 37 percent of working poor family units are led by women - but they face additional obstacles which lessen their chances of receiving decent pensions. While the Canada and Quebec Pension Plans take women's needs into account much better than do private pension schemes, there is still room for reform in public as well as private plans.

Women as a group earn less than men during their working lives, so they qualify for lower average C/QPP benefits than men when they retire. According to the latest available statistics (for 1981), 77 percent of women contributing to the Canada Pension Plan had earnings below the maximum pensionable level ($14,700 in 1981). By contrast, over half (58 percent) of male contributors earned more than the limit on pensionable earnings. Women averaged $10,933 in earnings - only 56.5 percent of men's $19,366 and fully $3,767 below the year's maximum pensionable earnings. While this data cannot permit an accurate forecast of the future retirement pensions of persons who contributed to the CPP in 1981 - the amount of their pension will depend on their average pensionable earnings during their working life, not just 1981 - the statistics do suggest that the majority of women who contribute to the CPP will receive less than the maximum pension when they retire. The figures given earlier, which show that the average CPP retirement pension for a woman is only two-thirds that for men, bear this assertion out.

Table 17 compares the earnings of men and women contributing to the Canada Pension Plan for 1971 through 1981. In each year, the average earnings of female contributors were below the amount required to qualify for a maximum CPP retirement pension (the year's maximum pensionable earnings), while male contributors averaged earnings above the YMPE. The earnings gap has narrowed somewhat over the years, but not very much. In 1971, women who contributed to the CPP reported less than half the average male contributor's earnings. Ten years later, female contributors averaged 56.5 percent of men's earnings.

Table 17

Average Earnings of CPP Contributors, by Sex, 1971 to 1981

	Year's Maximum Pensionable Earnings	Women	Men	Women/Men
1971	$ 5,400	$ 3,404	$ 7,154	47.6%
1972	5,500	3,690	7,843	47.0
1973	5,600	4,025	8,686	46.3
1974	6,600	5,176	10,240	50.5
1975	7,400	5,993	11,423	52.5
1976	8,300	6,853	12,746	53.8
1977	9,300	7,460	13,628	54.7
1978	10,400	8,018	14,522	55.2
1979	11,700	8,717	15,871	54.9
1980	13,100	9,722	17,359	56.0
1981	14,700	10,933	19,366	56.5

Until recently women also were at a disadvantage because the C/QPP retirement pension is based on a worker's average lifetime earnings. Contributors are allowed to drop out 15 percent of this period (7 years out of 47 for the majority of workers who will retire at age 65) to eliminate years of low or no earnings from their pension calculation. However until last year, persons who left the paid labor force to work in the home caring for children (the overwhelming majority of them women) were not allowed also to exclude this period of low or no earnings from their lifetime average for purposes of the Canada Pension Plan, though the Quebec Pension Plan has had a childrearing dropout provision since 1977. The new CPP childrearing dropout feature (which applies to years spent raising children up to the age of seven) is retroactive to January 1, 1978; anyone receiving a pension on that date or later will be able to drop out their child-rearing years as far back as 1966, when the plan began.[8]

Even if they spend few or none of the years between age 18 and 65 out of the paid work force, women still tend to have lower average lifetime earnings than men because they are more apt to work part-time (especially if they have young children) and/or in lower-paid jobs and occupations. In 1983, one woman worker in four was employed part-time, in contrast to only eight men in a hundred. Sixty percent of wives with children under seven worked in 1981 - 37 percent part-time and 23 percent full-time; among wives with older children, 28 percent worked part-time and 30 percent on a full-time basis. Women who leave the work force to raise children may forego career and earnings advancements, especially if they remain at home for several years. As a result, a woman lucky enough to earn an average or above-average income for part of her career may still face the prospect of a less-than-maximum C/QPP pension when she retires because her average lifetime earnings are below the level required to qualify for maximum benefits.

Despite these problems - which, it should be stressed, stem more from the inferior position of women in the work force than from inadequacies in the design of public pension plans - in future the C/QPP will contribute somewhat more to women's retirement income than at present. More and more women are entering the paid labor force and therefore automatically qualifying for a C/QPP retirement pension whether they work for low wages or a comfortable salary, part-time or full-time, for a small employer or large corporation or government department. It is significant that, even among wives with pre-school children, six in ten now work either full or part-time.

Table 18 shows trends in the proportion of men and women of working age who contribute to the Canada Pension Plan. Women have enjoyed substantial gains during the past decade, and the gap between men and women has narrowed.

In 1971 the proportion of men aged 20 to 64 who paid into the Canada Pension Plan (97.4 percent) was 1.8 times greater than the figure for women (53.1 percent), but by 1981 the difference between the sexes had declined to 1.5 times. The number of women contributing to the CPP rose from 2.1 million in 1971 to 3.2 million in 1981 - a substantial 52 percent increase, compared to 20 percent for men.

Table 18

CPP Contributors as a Percentage of Persons Aged 20 to 64, by Sex, 1971-1981

	Women		Men	
	No. of Contributors	As % of Women 20-64	No. of Contributors	As % of Men 20-64
1971	2,139,777	53.1%	3,981,357	97.4%
1976	2,556,128	55.6	4,409,455	95.6
1981	3,243,606	62.7	4,786,739	91.3

Women who work in the home all their life cannot contribute to and therefore do not qualify for C/QPP retirement pensions. However their numbers are decreasing and will continue to diminish in years to come. By the year 2000, as many as seven women in ten between the ages of 20 and 65 will be in the paid labor force, and many of the remainder will enter or re-enter the work force after a short period in the home.[9]

Nevertheless there are many women today, especially among the older age groups, who cannot look forward to a C/QPP retirement pension when they retire. Table 19 compares the percentage of men and women in various age categories who contributed to the Canada Pension Plan in 1981. Sixty-three percent of women aged 20 to 64 contributed to the Canada Pension Plan in 1981,

compared to 91 percent of men of working age. The majority of men aged 50 to 64 (82 percent) paid into the CPP, in contrast to less than half (42 percent) of women in that age bracket.

Table 19

CPP Contributors as a Percentage of Age Groups, by Sex, 1981

Age Group	Women	Men
20 - 24	78.4%	92.1%
25 - 29	71.5	90.7
30 - 34	65.0	96.6
35 - 39	68.1	99.9
40 - 44	66.2	95.1
45 - 49	61.1	92.2
50 - 54	53.1	89.5
55 - 59	42.6	83.1
60 - 64	29.5	69.7
65 - 69	5.9	14.8
20 - 64	62.7	91.3
50 - 64	42.3	81.7

In 1978, the C/QPP was amended to give a spouse the right to half the pension credits earned by the other spouse during their marriage in the case of divorce. This feature will especially benefit a divorced woman with little or no C/QPP pension credits of her own. However the provision appears to be slow in catching on; only 8,590 applications to split pension credits - had been approved as of January 1984. (The February 1984 Budget has proposed that the credit-splitting provision be extended to common-law relationships and that both parties to a divorce be notified of the right to split pension credits).

Unfortunately the Canada and Quebec Pension Plans recognize the principle of marriage as an economic partnership of equals only when it comes to pension credits earned by spouses who divorce. The plans do not incorporate this widely accepted precept in their treatment of marriages which succeed (still the majority, despite the substantial increase in the rate of marriage breakdown in recent years). This failing particularly hurts women who work most or all of their life as homemakers and so receive little or no C/QPP retirement income of their own.

Most surviving spouses are women, since women outlive men and tend to marry men older than themselves. If a husband was receiving a C/QPP retirement pension when he died, all that his aged widow gets is a survivor's benefit worth 60 percent of the amount of his pension. However if the wife dies before the husband, he of course continues to receive his full retirement pension. Not only does the survivor's benefit usually work out to a small sum (especially if her husband's average lifetime earnings were not high enough to qualify for the maximum retirement pension), but it can be argued that the woman is entitled to a retirement pension in her own right by virtue of her economic contribution to the marriage, not just as a dependent. (The February 1984 Budget has proposed that the CPP be amended to provide for automatic credit-splitting when the younger spouse reaches 65).

A woman with no retirement pension of her own will suffer a drastic reduction in her living standard when her husband dies. Take the case of an elderly couple in which the man received an average new CPP retirement pension in October of 1983. The couple received $521 in Old Age Security benefits, $286 from the Guaranteed Income Supplement and $234 from the husband's CPP retirement pension - for a total monthly retirement income of $1,041, which is just $52 above the poverty line for a metropolitan area. The widow got $261 from OAS, $191 from GIS and a CPP survivor's benefit of $141, for a total monthly income of $593 - 25 percent below the poverty line. She must get by on 57 percent of the income coming into the household before her husband died, while it is generally accepted that a replacement rate of 60 to 70 percent is necessary.

Under the Canada Pension Plan, a widow is cut off survivor's benefits if she remarries. Quebec has recognized the injustice of this rule and has eliminated the remarriage clause in the Quebec Pension Plan. Starting January 1984, survivors who remarry will continue receiving their QPP survivor's benefit, and those who have had their benefits stopped can apply to have them reinstated. (The February 1984 Budget has proposed that the CPP be amended in a similar fashion).

While C/QPP benefits for a survivor 65 and older are calculated simply as 60 percent of the contributor's retirement pension, the rules regarding survivors under 65 are quite complex. The survivor's benefit is divided into two parts: a flat-rate component (currently $83.87 a month under the CPP, and, in the QPP, a much higher $275.00 a month for survivors 55 to 64 and $214.94 for those under 55) and an earnings-related portion which is 37.5 percent of the contributor's actual or imputed retirement pension, up to a maximum monthly benefit of $229.18 for the Canada Pension Plan and a much more generous $420.31 for survivors 55 to 64 and $360.25 for those under 55 from the Quebec Pension Plan. Benefits are payable to surviving spouses aged 45 to 64 and to surviving spouses under 45 who are disabled or have dependent children (who must be under 18 and unmarried or under 25 and a student). Surviving spouses aged 35 to 45 who are neither disabled nor supporting children also qualify for a survivor's pension, but their benefits as calculated by the formula described above are reduced by 10 percent for each year under 45. Finally, the Canada Pension Plan pays $83.87 a month and the Quebec Pension Plan $29.00 a month on behalf of each child of a deceased contributor.

The fact that the Canada and Quebec Pension Plans provide any benefits at all to survivors under 65 puts them a notch above private pension plans, most of which do not offer survivor's provisions. However there are problems with the design of C/QPP benefits for non-aged survivors.

A surviving spouse under 65 with no income other than the C/QPP survivor's pension would live in dire poverty. The most that the Canada Pension Plan pays is $229.18 a month or just $2,750 a year. The Quebec Pension Plan is more generous - for a survivor aged 55 to 64, maximum benefits total $420.31 a month or $5,044 a year - but anyone trying to survive on this income alone would fall almost $5,000 below the poverty line for Montreal and the Quebec City area. Orphan's benefits raise the maximum annual payment to $4,773 for a surviving parent with two children under the Canada Pension Plan and $5,740 from the Quebec Pension Plan, but such amounts are many thousands of dollars below the low-income line.

These examples make matters look better than they actually are because they are based on maximum rates. Average survivor's benefits are much lower. In January 1984, the average new survivor's pension from the Canada Pension Plan was only $161.30 a month - just $1,936 for the year.

If survivors work or otherwise have another source of income, survivor's benefits represent a welcome supplement to their income. However they receive exactly the same pension as survivors who do not have a job and so depend on their benefit for most or all of their income. Unfortunately many older women, especially those who have worked in the home up until they were widowed, face a bleak prospect of finding employment that pays a reasonable wage. Younger widows with children to support also may have a tough time getting by, especially if they were homemakers when their husband died or (as is so often the case) bring home a paycheque that cannot possibly make up for the loss of their husband's earnings.

Conclusion

Despite some remediable shortcomings, the public levels of Canada's retirement income system form a sound structure which, as we argue in our companion report Pension Reform, constitutes a practical basis for pension reform.

The federal income security programs for the aged - Old Age Security and the Guaranteed Income Supplement - provide an effective foundation for the pension system. All that is required in an enrichment of benefits to fully meet the anti-poverty objective.

The Canada and Quebec Pension Plans exclude homemakers and replace only a limited portion of pre-retirement income. However they offer several good features - universality (all paid workers are covered, whether they work full-time or part-time, for low wages or high, for small employers or large or for themselves), portability (pension credits are unaffected by job changes), vesting (employees are assured the pension contributions made on their behalf by all their employers, no matter how many they work for), inflation protection (both pension credits and benefits are adjusted to fully taken into account increases in the cost of living) and survivor's benefits. As we explain in the next chapter, these advantages are lacking in private pension plans, which particularly fail low and middle-income Canadians.

THE THIRD LEVEL: A) PRIVATE PENSION PLANS

When the Canada and Quebec Pension Plans are fully in place - that is, when maximum pensionable earnings have reached the average industrial wage - they will replace 25 percent of pensionable earnings up to the average wage. Old Age Security currently contributes another 14 percent of average industrial earnings. This is still a long way from meeting the income-replacement objective. The shortfall is supposed to be filled by the third level of the retirement income system - private pension and retirement savings plans. This chapter looks at private pension plans, and the next at Registered Retirement Savings Plans and tax provisions which reward personal saving for retirement and ease the tax burden on the aged.

The private part of Canada's retirement income system is much more complex and variable than the public levels. This fact is reflected in the terminology used to describe private pensions, which is somewhat technical and not consistent from one source to another. For this reason it is necessary to define some basic terms before describing the third level of the pension system.

The term 'private pension plan' is used in this report to include all plans other than the Canada and Quebec Pension Plans (which are referred to as 'public pension plans') and Old Age Security, the Guaranteed Income Supplement, the Spouse's Allowance and provincial supplements for the aged (in everyday speech often collectively called 'the old age pension', though more accurately termed 'income security programs for the elderly'). Some private plans cover government employees; these are referred to as 'public sector plans'. Others operate in the private sector (both company plans and those sponsored by trade unions and professional organizations) and are designated as 'private sector plans'.

The range of private pension plans is so enormous that it would be impossible to describe them all. There were 14,586 private plans in operation in 1980, and together these plans had 4,475,429 members.[10] Private pension

plans are sponsored by a wide range of employers, including all three levels of government; private companies; groups of companies; trade unions; professional, religious and charitable organizations; and social and community agencies. Employers contribute towards the cost of all private pension plans; employees share the cost in three out of every four plans, while in the remainder employers pay the full amount. Contributions to private pension plans came to $7.6 billion in 1979 - more than double the $3.1 billion paid into the Canada and Quebec Pension Plans.

Of the myriad of statistics on private pension plans, those showing the average value of retirement benefits say most about the inadequacy of private pensions in Canada. The minority of retired persons who belonged to private plans averaged only $3,930 in 1979. Male pensioners did better than female pensioners - $4,516 compared with $2,929 - but it is clear that few are doing very well.

Small wonder, then, that private pensions contribute only 12 percent of the income of elderly couples and just 11 percent of the income of the unattached aged. To understand why this is so, we must consider the features of private pension plans which cripple their capacity to help meet the income-replacement objective of Canada's retirement income system.

Limited Coverage

The most obvious weakness of private pension plans is how inadequately they cover the work force. In 1980 only 39.7 percent of the labor force belonged to private pension plans. If we exclude the self-employed (who are not eligible for employer-sponsored pension plans) and consider only employees, coverage comes to 44.3 percent. Even eliminating from the calculation the unemployed (who also cannot participate in private pension plans) brings the proportion to only 47.7 percent. This means that more than half of employed paid workers have no protection from a private pension plan and must rely solely on public programs and personal savings.

Coverage has improved somewhat over time - only 40.1 percent of employees belonged to private pension plans in 1970 compared to 44.3 percent in 1980 - but not enough. Indeed Table 20 shows that coverage was little better in 1980 than 1978.

Table 20

Private Pension Plan Membership, 1960 TO 1980

	Number of Members	As Percentage of Paid Labor Force
1960	1,815,022	36.0%
1965	2,345,648	38.3
1970	2,822,336	40.1
1974	3,424,245	40.7
1976	3,902,498	43.2
1978	4,193,244	44.1
1980	4,475,429	44.3

The coverage of private pension plans is as uneven as it is weak. The overall 44.3 percent rate for paid workers is largely the result of high rates of coverage by plans in the public sector; virtually all employees of governments and crown corporations have pension protection. In the private sector, on the other hand, only 34 percent of employed workers belong to private pension plans - meaning that two out of every three do not. Progress has been slow in the private sector; coverage increased only from 30 percent of employed paid workers in 1970 to 34 percent in 1980, whereas the proportion of public sector employed workers with private pension protection went from 87 percent to close to 100 percent during the same period.

Employees in large organizations are more likely to enjoy pension protection than those in the smaller firms typical of the lower-wage marginal

labor market. Employers with 14 or fewer workers count only 40,733 members or less than one percent of all private pension plan members, while 3,296,265 members or 73 percent of the total belong to the 277 largest plans found in large industries. Pension coverage in very small firms (those with fewer than five employees) is practically non-existent.

While the private pension system manages to leave out many people at every income level, the burden of its inadequate coverage falls especially hard on Canadians with below-average earnings. Lower-wage earners rarely belong to private pension plans. Most work in small, nonunionized firms characterized by low pay, limited promotional opportunities and, often, seasonal employment. Private pensions are simply one more element in the job package of adequate pay, decent working conditions and employment opportunities denied the working poor.

In 1979 only one worker in ten earning half the average wage or less (under $7,500) belonged to a private pension plan. Employees in higher income groups had a far better chance of enjoying private pension protection; in fact the large majority of those earning above the average wage were members of private plans. The following table demonstrates clearly the link between coverage and earnings.[11]

Table 21

Private Pension Plan Coverage, by Earnings Level, 1979

Earnings Level	Coverage
Under $7,500 (0.5 AIW)*	10.8%
$7,500 - $14,999 (0.5 - 1.0 AIW)	48.3
$15,000 - $22,499 (1.0 - 1.5 AIW)	72.5
$22,500 - $29,999 (1.5 - 2.0 AIW)	84.2
$30,000 and over	83.7
Total	48.2

*average industrial wage

There is a marked difference in pension plan coverage between men and women. While 50.6 percent of men in the paid labor force belong to private pension plans, only 34.6 percent of female workers are members. The latter figure is rather misleading since it includes women working in the public sector, all of whom belong to private plans. Only 19 percent of women working in the private sector belong to private pension plans, a reflection of the over-representation of women in business and personal service industries, small manufacturing firms and processing plants which pay low wages and offer little hope for pension plan membership. Six in ten women who participate in private pension plans work in the public sector, compared to fewer than four in ten men.

Table 22

Private Pension Plan Membership, Public and Private Sector, by Sex, 1980

	Number of Members	As Percentage of Paid Labor Force
Women		
public sector	817,681	100.0
private sector	560,052	19.3
total	1,377,733	34.6
Men		
public sector	1,152,250	100.0
private sector	1,945,446	42.9
total	3,097,696	50.6

Another reason for the poor coverage of women is the fact that private pension plans usually exclude part-time workers, most of whom are women. If part-time employees are dropped from the calculation, the proportion of employed paid women with a private pension plan increases substantially to 47.8 percent. However we cannot ignore part-time workers in our assessment of the performance of Canada's pension system. The percentage of women employed part-time has grown steadily from 20.3 percent in 1975 to 26.2 percent - one in four - in 1983. Fortunately the Canada and Quebec Pension Plans do cover part-time workers.

Vesting and Portability:
The Pension Consequences of Changing Jobs

The pension promise turns out to be hollow for many employees who contribute to pension plans but change employers several times during their careers. Some retire with much smaller pensions than they expected, and others do not even qualify for pension benefits. If more contributors understood two key technical terms - vesting and portability - they might be more realistic about what to expect from their pension plans and better aware of the need for major pension reform.

Vesting refers to the right of an employee, on changing jobs, not only to his own pension contributions (70 percent of plan members contribute towards their pensions) but also to part or all of the contributions made on his behalf by his employer. This does not necessarily mean that the employee will get the money immediately in cash. It can mean either a cash settlement or, more often, the assurance of a pension (based on the credits which have been earned to date) when the employee reaches the age of entitlement - usually 65. The latter is referred to as a deferred pension. If an employee's pension contributions are vested but he has no option except a deferred pension, his contributions are said to be **locked-in.**

Most provinces and the federal government have enacted laws covering private pension plans that set minimum standards for vesting.[12] In general, pension contributions must be vested if an employee has been a member of a plan

for ten years and has reached the age of 45. This is sometimes called the '45-and-10 rule'. Pension contributions so vested are also locked-in by law, which ensures that the employee will receive a deferred pension when he or she reaches normal retirement age.

Manitoba requires full vesting after ten years of service or participation in a private pension plan, regardless of the member's age, though the locking-in rule does not apply until age 45. Starting in 1985, locked-in vesting will be required after five years and, from 1990 on, after just two years. Saskatchewan now requires locked-in vesting for members who have worked for an employer at least one year and whose age and employment in the province total at least 45 years.

Private pension plans are free to set more generous vesting rules than the legislated minimum. In fact only 14 percent of pension plan members - one in seven - have no protection other than the 45-and-10 rule. Two out of three members are now entitled to full vesting after ten years or less, irrespective of age. However only 5 percent of private pension plan members enjoy immediate vesting (that is, contributions are vested the moment they are made). The public pension plans are superior to private plans in this respect: Canada and Quebec Pension Plan contributions are immediately vested for all plan members and are automatically locked-in.

Vesting provisions have improved over the years, but many private pension plan members still must wait a long time before their pension rights are vested. For that matter even ten years is a long time. According to the Economic Council of Canada, 11 percent of all full-time male employees aged 55 and over, and 22 percent of women employees in this age group, have not worked for the same employer for even ten years.[13]

Once again, members of public sector pension plans fare better than employees in private sector plans. In 1980, 82.3 percent of pension plan members in the public sector qualified for full vesting after ten years or less, and 6.9 percent had immediate vesting. In the private sector, only 45.5 percent

of members belonged to plans that offer vesting after ten years and just 3.6 percent enjoyed immediate vesting. Almost one-quarter of the members of private sector plans are protected by the minimum '45-and-10' vesting standard, compared to only 3 percent of employees in the public sector.

Portability is another key pension term. This means that an employee can take his accrued pension credits from one employer to another. Pension credits from the Canada and Quebec Pension Plans, for example, are completely portable. It makes no difference in these plans if a person changes jobs: his pension credits are totally unaffected. The portability feature is one of the key advantages of public pension plans.

Pension credits in most private plans, on the other hand, are not portable. If an employee moves to a new job, his pension credits with a former employer are unlikely to be of any assistance in establishing entitlement to a pension from his present employer; in a sense, he has to start all over again. At best he will receive a deferred pension from his previous employer if he worked long enough to qualify for vesting, but he cannot count his previous pension credits towards his new pension plan. At worst he gets from his previous employer only his own pension contributions, perhaps with interest (often at a below-market rate).

Portability provisions exist mainly in the public sector, though they are also found in universities, the life insurance industry and some multi-employer industries such as construction. Portability of pension credits requires reciprocal arrangements between employers - detailed agreements that spell out, among other things, how credits under one plan should be converted to credits under another plan. The vast number of private plans and the enormous variation in their structure make it inconceivable that full portability could ever be achieved among all plans in the private sector simply through employer-to-employer agreements.

If the labor force were stable, the vesting and portability problems would not seriously weaken the private pension system. The fact is, however,

that Canada has an increasingly mobile work force. A recent study found that the average Canadian male employee works full-time for six different employers during his career.[14] The Royal Commission on the Status of Pensions in Ontario conducted a survey which showed that women are even less apt to have the kind of work history - an uninterrupted career with one employer - required to receive a full pension upon retirement; women often leave the labor force after their first job to raise young children; spend three times longer than men between jobs; and tend to work for a shorter period than men for each employer.[15]

Even if they belong to a pension plan in every job (an unlikely state of affairs, given the low rate of pension coverage), mobile workers can easily retire with far fewer years of pensionable service than the number of years they worked and contributed to pension plans. Some will not even qualify for a pension because they never worked long enough for any of their employers. As a result, it has been estimated that as few as 10 percent of the members of private pension plans actually end up with a full pension.[16]

A study commissioned for the federal Task Force on Retirement Income Policy shows how seriously the problems with portability and vesting can undermine the effectiveness of private pension plans. A man entering the work force today at age 20, who always belongs to a pension plan with the '45-and-10' vesting rule and works for six employers, can expect to retire at age 65 with an average of only 22 years of pensionable service after working and contributing to his pension plan for 45 years.[17] Harder hit are women who, as a group, tend to shift jobs more often than men and may leave the labor force to raise children. Even if they belong to private pension plans (and most female workers do not), the difficulties involving vesting and portability reduce further their already limited pension benefits.

Inflation and Indexation

The third major problem facing private pension plan is inflation. Actually inflation can affect pension plans in two ways, and both have to be taken into account. The better known of the two is the effect of inflation on pensions paid after retirement.

A pension of a fixed amount obviously will deteriorate in purchasing power because of inflation. What might be a comfortable income at the start of retirement can soon become a ticket to poverty. To use an example given by the Royal Commission on the Status of Pensions in Ontario, a person who retires on a pension of $900 a month and who has no protection against inflation will find his purchasing power cut by over one-third to $566 after five years' retirement, if inflation were 8 percent a year.[18] The longer such a pensioner lives, the less his private pension will be worth and the more he will have to rely on public programs for his income.

Inflation dropped to 5.8 percent in 1983 and will run around 5 percent in 1984, but it averaged 10 percent a year from 1974 through 1982. Periods of high inflation are devastating to unprotected pensions.

Less visible, but also damaging, is the way inflation can erode the value of pension credits earned prior to retirement. For instance, consider a plan in which benefits are based on the average of an employee's wages during his working life (what is called a 'career-average plan'). Suppose a worker's wages have increased each year just enough to compensate for inflation. In terms of purchasing power, the $5,000 a year he earned in the early 'fifties is exactly equal to the $18,000 which he earned thirty years later. Measured by what money can buy, his career average, in 1984 dollars, is really $18,000.

But career-average pension plans do not take the effects of inflation into account. They treat a dollar in 1984 the same as a dollar in 1950. Thus the effect of the $5,000 is to make his lifetime average quite low - around $11,000 - and it would be on this low figure that pension benefits would be based.

Fortunately the Canada and Quebec Pension Plans protect their contributors against both effects of inflation. Pension benefits are indexed annually to compensate fully for increases in the cost of living. Pension credits are adjusted at the time of retirement to make pensionable earnings from previous years comparable to earnings in the current year.

Private pension plans do not do nearly as well. Only 31.5 percent of members are in schemes that ensure indexed benefits after retirement. An even smaller proportion - 21.1 percent - enjoy full protection against inflation; the other 10.7 percent have only partial indexation. Thus for two pension plan members in three, the only compensation for inflation is ad hoc adjustments to benefits at the discretion of the plan's sponsor.

Again, members of public sector pension plans fare much better than members in the private sector. Two-thirds of members in the public sector enjoy indexation of their pension benefits, and almost half have their pensions fully protected from inflation. In contrast, only five percent of pension plan members who work in the private sector have indexed pension benefits. Moreover most of these are not fully indexed, but rather are raised by 2 or 3 percent in any given year or a fixed dollar amount.

Table 23

Inflation Protection, Private Pension Plans, Public and Private Sectors, 1980

	Percentage of Members	
	public sector	private sector
Indexing	65.4%	4.9%
full	47.8	0.1
partial	17.6	4.8
No indexing	34.6	95.1
Total	100.0	100.0

A national survey of large pension plans in the private sector found that, while 80 percent had made ad hoc adjustments for inflation during the period 1971-75, these averaged only 66 percent of the increase in the cost of living. A survey of Ontario manufacturing companies produced similar results. Though 80 percent of the large companies (those with more than 1,000 employees) provided some form of inflationary compensation, only 28 percent of the medium-sized firms (those with 100 to 1,000 workers) did so.[19]

Small firms (unlikely to have pension plans anyway) are much less likely to adjust pensions to counter the effects of inflation. Even if they belong to a private pension, then, lower-wage workers lack the bargaining power needed to win inflation adjustments, and their employers often lack the profits earned by larger firms to pay for pension increases.

The same situation holds in terms of protecting pension credits prior to retirement. In the public sector, almost all employees are in plans which give a good degree of protection against inflation by calculating benefits on the basis of an employee's highest-income years. These are called 'average-best earnings' plans since they are based on average earnings over a specified number (usually 5) of the member's best earnings years. A variant of this approach, the 'final average earnings' type of plan, uses average earnings during the last 5 years of employment. Often an employee's best earning years are at the end of his career, so the final and best earnings year plans provide an initial pension that reflects reasonably well the member's living standard just before retirement. In most cases, the pension is calculated as 2 percent or more of the 5 average best or final years' earnings times the number of years of credited service.

In the private sector, however, only 29.3 percent of the members have this kind of protection. Twenty-two percent have to suffer the consequences of 'career average' plans, which base the pension on the participant's average earnings over the time he belonged to the plan; unfortunately, pension credits earned each year are not automatically adjusted to counter the effect of

inflation, so the career average will be substantially below the member's earnings just before retirement. Another 38.1 percent of private sector plan members are in almost totally unprotected 'flat benefit' plans in which an employee is only ensured a fixed number of dollars a month for each year of service. Most members of flat-benefit plans are guaranteed a monthly pension of $16 (or less) times the number of years they worked for the company. In other words, someone who worked 20 years is likely to get a pension of under $320 a month or $3,840 a year, and inflation would start eating into even this small sum once retirement begins.

It is beyond the scope of the present discussion to examine in detail all the strengths and weaknesses of the different types of private plans, but it is worth noting yet another way in which the private pension system is stacked in favor of higher-income employees. As explained above, pension plans which base their benefits on a worker's final or best earning years offer better protection against the effects of inflation. They are also worth more to higher-income employees because their salaries tend to rise substantially over their working years (usually peaking towards the end of their career), unlike most lower-income workers who normally cannot look forward to progressive real pay increases and so gain little advantage from having their pension benefits based on their final or best earning years.

Women have not benefitted from the trend towards pension plans of the 'average best earnings' type (which by 1980 covered 55 percent of all plan members) because they are less likely than men to enjoy a rising earnings curve during their working lives and the pension advantages this brings. Women who work when young, then leave the labor force permanently to raise children, lose out because their 'best' or 'final' earnings (which are likely low in any case) will be worth much less thirty-odd years later when it is time to calculate their pension; again, the culprit is inflation. Women also live longer on average than men, so even if they retire with a private pension, they must watch its value dwindle from inflation over a longer period of time.

Survivor's Benefits

Another problem with private pension plans - one which especially affects women working at home - is the failure of many plans to provide survivor's benefits. Only 45 percent of pension plan members are in schemes that ensure a pension to the surviving spouse in the event that the contributor dies before retirement. These survivor's pensions are generally equal to only one-half of the pension accrued up to the time of the contributor's death. In many cases, the resulting benefit will be meagre, especially for the survivors of pension plan members who had below-average earnings and/or had not contributed long to the plan.

There are, again, large differences between plans in the private sector and in the public sector. In the public sector, 71 percent of members are in plans guaranteeing pre-retirement survivor's pensions; another 8 percent are in plans that at least refund both the employee's and the employer's vested contributions. In the private sector, however, only 24 percent members are in plans with survivor's pensions; another 24 percent are in plans that refund the employee's contributions, and 14 percent are in plans that refund both the employee's and the employer's payments. Thirty percent of private sector members are in plans that promise not a cent to the surviving spouse - not even a refund of the contributions that might have been made by the husband or wife.

The surviving spouses of pension plan contributors who die after retirement fare little better. Overall, 43 percent are entitled to a pension for the rest of their lives, 24 percent will receive a pension for five years or less, and another 7 percent for anything between 5 and 15 years. However 13 percent will get no survivor's pension whatsoever. Most surviving spouses, of course, are women.

Again, it is the public sector plans that make the figures even as good as they are. Seventy percent of the members of public sector plans can count on lifetime survivor's benefits. In the private sector, only 22 percent of members are in plans that ensure a survivor's pension for the rest of her/his life in the event of the death of the contributor after retirement; 48 percent are in plans that provide a temporary survivor's benefit (generally for five years), and 22 percent are in plans that provide no survivor's pension at all. It is no wonder that two out of every three elderly widows in this country live below the poverty line.

Most private pension plans that do not offer automatic survivor's benefits do allow retiring members to take a reduced pension in return for continuing benefits to their surviving spouse. However as few as one plan member in ten chooses this 'joint and survivor pension' option.

Saskatchewan recently amended its Pension Benefits Act to require all plans without survivor's benefits to provide a joint and survivor pension; unless the member's spouse has signed a waiver to the contrary, a surviving spouse must receive 50 percent of the member's pension. Manitoba has changed its Pension Benefits Act to require a similar joint and survivor provision in private pension plans that currently do not offer automatic survivor's benefits.

Divorce

As we saw in the previous chapter, the Canada and Quebec Pension Plans provide for the splitting of pension credits upon divorce, based on the principle of equal sharing of family assets accrued during the course of a marriage. This important feature is another advantage of public over most private pension plans.

In British Columbia, Alberta, Manitoba and New Brunswick, spouses who separate or divorce are entitled to half the private pension credits accumulated

during the marriage. In the remaining provinces, private pensions are not yet regarded as family assets to be shared upon the breakdown of a marriage. Women are the main losers from this failure since they are less likely than men to have a private pension of their own and, even if they do, likely will end up with a lower pension when they retire.

Conclusion

Private pension plans are simply irrelevant to more than half of the labor force who are excluded from coverage. Canadians who work part-time, for below-average wages or in the private sector are unlikely to belong to a private plan; the self-employed cannot participate at all. One man in two in the paid labor force has a private pension plan, in contrast to only one woman in three.

The public sector offers better pension plans to its employees than the private sector. Every public sector employee - but only one private sector work in three - belongs to an employer-sponsored pension plan. Public sector plans also have superior vesting conditions, portability arrangements, survivor's benefits and inflation protection than private sector pension plans.

However most Canadians work in the private sector, so the advantages of public sector pension plans are restricted to a relatively small segment of the work force. For many members of private pension plans, then, pension benefits upon retirement typically fail to measure up to their expectations because of the adverse vesting and portability consequences of job mobility. As pensioners who worked in the private sector grow older, they watch inflation eat away at their private pensions.

Lower-income workers in general and women in particular gain little or nothing from private pension plans. Moreover many plan members who earn middle incomes during their working years must get by on private pensions that are too small to meet their income needs in retirement. As a result, the majority of the Canadian work force - whether they belong to private plans or not - must rely upon income security programs, the Canada or Quebec Pension Plan and personal savings for most of their retirement income.

THE THIRD LEVEL: B) RETIREMENT SAVINGS PLANS AND TAX ADVANTAGES

There is one final element in Canada's retirement income system that cannot be ignored. Registered Retirement Savings Plans (RRSPs) are an important vehicle for personal savings towards retirement, especially for the self-employed who cannot participate in the employer-sponsored pension plans discussed in the previous chapter. In addition, the income tax system contains provisions which reward contributors to pension and retirement savings plans and which reduce (and in some cases totally eliminate) income taxes for pensioners.

Like private pension plans, these measures are addressed to the income-replacement objective of the retirement income system. Again, however, RRSPs and tax advantages benefit the higher-income minority far more than the low and moderate-income majority. In so doing, they drive an additional wedge between the incomes of lower and higher-income elderly Canadians.

Tax Deductions for RPP and RRSP Contributions

The **Registered Pension Plan** (RPP) provision allows both the employee and his employer to deduct from taxable income up to $3,500 a year in respect of contributions to a private pension plan. The **Registered Retirement Savings Plan** (RRSP) provision permits an employee who belongs to a private plan but who has contributed less than $3,500 to put some or all of the difference into a special type of retirement savings account and to claim this amount as an additional deduction. The part of the difference that can be sheltered from tax is limited by a person's earnings: RRSP contributions added to contributions to a private pension plan cannot exceed $3,500 or 20 percent of earned income. Persons who do not belong to a private pension plan - including the self-employed - may contribute a full 20 percent of their earnings to an RRSP up to an annual limit of $5,500.[20]

Contributions to private pension plans and RRSPs, and all the investment earnings from those contributions, are not subject to tax as long as the money stays in the plans. In effect, the public treasury makes an interest-free loan (in the amount of the tax postponed or deferred) to the pension plan member. When a pension is paid at retirement, the benefits are taxable. However, after they retire most people are in a lower tax bracket than during their working years, so they do not really pay back the entire tax at all (in fact about 40 percent of deferred taxes are lost to the federal government because of this feature).

The Department of Finance put a $5 billion price tag on the tax revenues lost to Ottawa and the provinces due to these interest-free loans in 1983. The RPP deduction accounted for two-thirds of this costly public expenditure, and the RRSP deduction one-third. By comparison, the Guaranteed Income Supplement cost $2.6 billion and employer and employee contributions to the C/QPP came to $4.7 billion.

Especially in today's climate of financial restraint, this $5 billion represents an astounding sum of money, and Canadians who benefit the most are those with the highest income, for four reasons: 1) since the limit on RRSP contributions is 20 percent of income, persons with higher incomes are allowed to make larger contributions than those with lower incomes; 2) as we saw earlier, higher-income people are far more likely to belong to a private pension plan and so reap the tax savings that result from the deductibility of private plan contributions; 3) higher-income taxfilers are in a better position to save for retirement and hence are more likely to contribute (and in larger amounts) to an RRSP; 4) the use of a deduction means that the tax saving increases with income, so that those with the highest income reap the largest reward. A deduction of $1,000 for example, leads to a benefit (through a tax saving) of $500 for a high-income person in a 50 percent marginal tax bracket. However a

modest-income person with a marginal tax rate of 20 percent receives a benefit of only $200. And for someone whose income is so low that he or she is already below the tax-paying threshold, there is no benefit at all.

Table 24 shows the percentage of taxfilers in different income groups who contributed to an RRSP in 1981, as well as the amount of their contribution. The pattern is clear. In general the higher his or her income group, the more likely the taxfiler is to have an RRSP and the larger his or her average contribution. Very few low-income Canadians can afford an RRSP. The average RRSP contribution for the $100,000-and-over group was thirteen times as large as the average amount for contributors with incomes under $6,000.[21] (Appendix E shows a similar pattern for RPP contributors, except that membership declines at high income levels because many of these taxfilers are self-employed or living off investments).

Table 24

RRSP Contributors, by Income Level, 1981

Income Level	Proportion of Tax Filers	Average Contribution
Under $6,000	0.6%	$ 411
$ 6,000 - $ 9,999	3.3	832
$10,000 - $13,999	7.5	1,154
$14,000 - $19,999	14.1	1,395
$20,000 - $24,999	21.0	1,687
$25,000 - $29,999	28.4	1,899
$30,000 - $34,999	34.9	2,127
$35,000 - $39,999	43.0	2,306
$40,000 - $49,999	49.5	2,621
$50,000 - $69,999	52.7	3,469
$70,000 - $99,999	56.9	4,460
$100,000 and over	55.1	5,346
average	12.9	1,986

Men are much more likely than women to have an RRSP. In 1981, 1,346,593 or 16.8 percent of male taxfilers contributed to an RRSP, compared to 607,409 or 8.5 percent of women who filed tax forms.

Table 25 compares male and female RRSP contributors of working age (20 to 64). More than twice the proportion of men as women belong to an RRSP. The average male contributor put $408 more into his plan in 1981 than the average woman with an RRSP.

Table 25

RRSP Contributors, Working Age, by Sex, 1981

	Women	Men
Contributors 20-64	586,459	1,281,624
As Percentage of Persons 20-64	8.2%	18.1%
Average Contribution	$1,630	$2,038

There is no question that Registered Retirement Savings Plans both supplement and, for some people (such as some self-employed), substitute for private pension plans. Of the two million Canadians who contributed to an RRSP in 1981, 1.2 million - 59 percent - also belonged to a private pension plan. Only 825,000 taxfilers had RRSPs alone.

Again, however, most RRSP members - whether they contribute only to an RRSP or to both an RRSP and a private pension plan - are on the higher rungs of the income ladder, and few have low incomes. The latest available data, for

1981, show that eight in ten RRSP contributors have above-average incomes. Affluent Canadians put much more money into their RRSPs each year than the small number of low and modest-income persons with RRSPs. So RRSPs do **not** make up for the poor coverage of private pension plans among Canadians with below-average incomes.

As one would expect, the self-employed (who are not eligible for membership in private pension plans) are more likely to use an RRSP as a saving vehicle than are employees: 21 percent of the self-employed had an RRSP in 1981, compared to 15 percent of employees. As Table 26 shows, RRSP membership is highest among self-employed professionals; they were more than twice as likely to contribute to an RRSP than the self-employed in general, and their contributions were $1,145 above the average for all the self-employed. The highest coverage was for dentists (78.2 percent had an RRSP in 1981) and doctors made the highest average contribution ($4,809).

Table 26

Self-Employed RRSP Contributors, by Occupation, 1981

Occupation	Percentage With RRSP	Average Contribution
fishermen	6.6%	$2,132
farmers	15.8	3,094
business proprietors	16.7	2,189
salesmen	27.5	2,808
professionals	48.7	4,184
engineers and architects	55.8	3,965
accountants	56.6	4,207
lawyers	57.1	4,443
doctors	76.1	4,809
dentists	78.2	4,766
all self-employed	20.7	3,039
all employees	15.1	3,094

A study conducted by the Department of Finance produced some startling findings on the distribution of tax savings from the deductibility of RRSP contributions. There were only 152,000 individuals with incomes over $50,000 in 1979 - a mere 1 percent of the total 14.7 million taxfilers. Six in ten (60.8 percent) of this affluent minority contributed to a Registered Retirement Savings Plan, compared to only one in ten (11.2 percent) of taxfilers with incomes under $50,000. The well-off group averaged $4,300 in RRSP contributions, in contrast to $1,608 for the other contributors. The upper-income contributors reaped 13.2 percent of the tax savings resulting from the deduction for RRSP payments - thirteen times their size in the taxfiler population.[22]

It comes as no surprise, then, that affluent Canadians have jumped on the RRSP bandwagon in such large numbers: They stand to gain so much both during their working years (when their contributions win them lucrative tax savings) and in retirement (when their RRSP accounts will contribute a substantial portion of their income). While the total number of RRSP contributors went from 205,879 in 1969 to 1,954,002 in 1981 - an eight-fold increase - the ranks of contributors with incomes over $40,000 multiplied 37 times (9,418 in 1969 to 354,660 in 1981) over the same period.

Fewer Canadians contribute to RRSPs than private pension plans - 1.9 million versus 3.5 million in 1981 - but in total they are putting more money into RRSPs. Employee contributions to private pension plans amounted to $3.4 billion in 1981, but RRSP contributors squirrelled away $3.9 billion.

Not only do few low-income earners belong to private pension plans and RRSPs, but the tax part of the pension system offers them little incentive to do so. Contributions to an RRSP or a private pension plan (added to mandatory contributions to the C/QPP) pose a greater financial burden for a low-wage worker than for his middle or upper-income counterpart. Because the working poor are in a low or zero marginal tax bracket, their tax savings from the deductibility of RPP and RRSP contributions are small or non-existent. Moreover

upon retirement they would find that the benefits received (in the form of an annuity) from a private pension or RRSP wholly or partly offset their Guaranteed Income Supplement and provincial supplement. They might in fact be worse off than if they had saved nothing at all for their retirement. Of course this dilemma does not face most low and modest-income Canadians: few belong to private pension plans, and few can afford an RRSP even if they want one.

The February 1984 Budget has proposed major revisions to the tax assistance provisions for retirement savings. The series of changes planned are rather complex, so the reader should consult the Budget document Improved Tax Assistance for Retirement Saving for a complete account of the proposals. At this point we simply sketch out the main outlines of the proposed scheme.

The aim of the proposed tax assistance system is to encourage savings for a retirement pension equal to 2 percent of earnings accumulated throughout a working career (ages 18 to 70). To pay for such a pension, the Department of Finance says that an individual must contribute (or have contributed on his behalf by an employer) 18 percent of total lifetime earnings. Each year, an individual would be allowed an income tax deduction of up to 18 percent of career earnings to date, less previous retirement pension and savings contributions. The tax deduction would apply to contributions to private pension and savings plans, including the new Registered Pension Account (a retirement savings vehicle that would operate like an RRSP that allows employer contributions on behalf of employees and locks in benefits until retirement). A taxfiler would be able to carry over unused deduction entitlement from one year to another.

The proposed system would be phased in over several years. The first stage would see the annual limit for contributions to RRSPs and money-purchase pension plans increase from the current $5,500 (for contributors without RPPs) to $10,000 in 1985, $12,000 in 1986, $14,000 in 1987 and $15,500 in 1988. The $3,500 ceiling on deductible contributions to defined benefit RPPs (which cover 95 percent of private plan members) would be eliminated, though the existing limit on their RRSP contributions ($3,500 less RPP contributions) would remain.

A new retirement savings plan, the Registered Pension Account (RPA) would be created. The second phase, starting in 1988, would impose the new comprehensive deduction limit of 18 percent of updated career earnings, to a maximum of $15,500, for contributions to registered pension and retirement savings plans. Pension and contribution limits would be indexed annually to the average industrial wage from 1989 onwards.

While the proposed scheme is superior to the existing tax assistance provisions for retirement savings (its merits are spelled out at length in the Budget paper mentioned earlier), in our opinion it will do little to remedy the pension coverage problem for Candians earning low or modest wages. A system of incentives based on tax deductions - whatever its design - rewards affluent taxpayers most and lower-income earners least. The Budget proposals will enrich the tax benefits for upper-income taxfilers because they will be able to deduct much larger amounts from their taxable income. (A taxpayer earning $60,000 in 1985, for example, will enjoy a tax saving of $4,440 under the new rules as opposed to $2,442 under the current system - a hefty bonus of $1,998). However Canadians with average incomes or below will gain no tax advantages from the proposed approach, which in any event will not change the fact that they cannot afford to put money into an RRSP in the first place and are unlikely to belong to a private pension plan.

Tax Deduction for C/QPP Contributions

Private pension plans and RRSPs are not the only part of Canada's retirement income system that brings tax advantages that most benefit the affluent. Contributions to the Canada and Quebec Pension Plans are also tax-deductible.

Because of the ceiling on pensionable earnings, contributions to the Canada/Quebec Pension Plan are already regressive - that is, the percentage of earnings paid in contributions declines once earnings exceed the pensionable limit. Everyone making more than $20,800 in 1984 pays the same maximum contribution of $338.40 to the C/QPP. But this fixed amount represents a

diminishing proportion of income as earnings increase. For example, C/QPP contributions represent 1.6 percent of earnings at $21,000 but only 0.8 percent - just half the amount - for someone earning $42,000 a year.

The income tax deductibility of C/QPP contributions makes this regressivity all the worse. A deduction of a fixed amount such as $338.40 produces an increasing tax saving as income rises and an individual moves into higher tax brackets. To see the real amount of Canada/Quebec Pension Plan contributions, the tax saving from the deduction must be subtracted from the required contribution. The resulting net C/QPP contributions are shown in Table 27.

Table 27

Net Contributions to C/QPP, 1984

Earnings	C/QPP Contribution	Tax Saving from Deduction	Net C/QPP Contribution	Effective Contribution Rate
$ 6,000	$ 72	$ 0	$ 72	1.20%
8,000	108	29	79	0.99
10,000	144	38	106	1.06
12,000	180	47	133	1.11
15,000	234	66	168	1.12
20,000	324	96	228	1.14
30,000	338	126	212	0.71
50,000	338	151	187	0.37

The highest effective C/QPP contribution rate (i.e., net contributions as a percentage of earnings) shown is 1.20 percent, and it applies to persons earning just $6,000. The rate for a $50,000 earner is a mere 0.37 percent. Thus the poor C/QPP contributor earning only 12 percent of the salary of a $50,000-a-year person bears more than three times the effective tax burden. A worker earning a modest $20,000 (which is below the estimated average wage of $22,800) pays a net C/QPP contribution of $228 for the year - the highest amount shown on Table 27.

The cost to the federal treasury in 1980 due to the deduction of Canada and Quebec Pension Plan contributions was $540 million. The cumulative cost of the deduction in terms of taxes reduced or deferred since the plans began in 1966 comes to $4.5 billion. Adding in provincial revenue losses brings the figures to approximately $800 million and $6.7 billion, respectively.

Tax Deductions for Pension Income and Interest Income

Another section of the tax act gives additional benefits to retired Canadians who belonged to private pension plans and Registered Retirement Savings Plans. This is the provision that allows the deduction of up to $1,000 of income received from any pension or savings plan other than the public ones - that is, excluding the Canada and Quebec Pension Plans. The cost of this deduction to the federal treasury in 1980 was $105 million, and as much as $52 million was lost by the provincial governments. Since higher-income people are much more likely to contribute to a private pension plan or an RRSP, and since they contribute more on average and so get bigger benefits on retirement, they enjoyed the lion's share of this $157 million as well.

All taxfilers can deduct up to $1,000 in interest earned on savings and investments. This provision particularly helps the affluent minority of retired Canadians who derive a substantial portion of their income from investments. The investment income deduction cost Ottawa $665 million in foregone tax revenue in 1980, and the provinces lost about $332 million.

Age Exemption

Once they reach 65, taxfilers can exempt a portion of their income from tax; for the 1984 taxation year, this amount is $2,460. To put this figure in perspective, the age exemption represents about three-quarters of Old Age Security payments for a year.

Since it reduces taxable income, the age exemption - like the deductions for pension and interest income and for contributions to private pension plans, RRSPs and the Canada and Quebec Pension Plans - has a help-the-rich-most effect. A poor single pensioner who relies on income security programs for all of his or her income declares only Old Age Security payments as taxable income; the Guaranteed Income Supplement and provincial supplements are not subject to income tax. However the pensioner's basic personal exemption alone ($3,960 in 1984) is more than Old Age Security benefits (thereby reducing taxable income to zero) so the aged exemption produces no tax savings for the poorest of Canada's elderly.

The age exemption lowers the taxes of better-off pensioners who receive income from the Canada/Quebec Pension Plan, private pension plans, and investments. An aged Ontario taxfiler with $12,000 in income in 1983 (made up of $3,066 from Old Age Security payments, a Canada Pension Plan retirement pension of $1,800 and just over $7,000 from a private pension plan and investments) can reduce his taxable income by $8,130 worth of exemptions and deductions (a basic personal exemption of $3,770, an age exemption of $2,360, $1,000 in interest income and $1,000 in pension income), and would owe $569 in federal and provincial income taxes. Without the age exemption, his taxable income would be $2,360 higher and taxes would amount to $1,190. Therefore the age exemption is worth $621 to this average-income elderly Canadian.

The value of the age exemption increases as income increases. An affluent pensioner with a 1983 income of $30,000 would pay $877 more in federal and provincial income taxes if he could not claim the age exemption. The rare elderly person with a retirement income of $50,000 saves $1,048 in income tax thanks to the age exemption.

Our examples use single pensioners, but of course elderly couples benefit in the same way from the tax advantages discussed in this chapter. In the case of the age exemption, the interest deduction and the pension income deduction, the unused portion of each can be transferred to the other spouse. In fact the combination of these tax breaks means that most two-pensioner couples will owe no income tax if their income is under $18,000.

Conclusion

The objective of the Registered Pension Plan and Registered Retirement Savings Plan provisions of the Income Tax Act is to encourage saving for retirement. It is evident that they do encourage saving, but not uniformly across income groups. They reward affluent Canadians most. They offer only modest encouragement to middle-income people. And they provide virtually no incentive to low-income people.

The age exemption and deductions for pension and interest income either reduce or eliminate the tax burden for elderly Canadians. Only 54 percent of aged taxfilers - 57.5 percent of men and half of women - owed the government any income tax at last count. Of course a large proportion of the aged have low or modest incomes and so would not pay much tax in any case. However the various exemptions and deductions - which averaged $1,476 for elderly men and $694 for aged women in 1981 - ease further the tax bite on elderly income.

The problem with the tax part of the retirement income system is that its enormous benefits - over $6 billion in 1980 - so favor the fortunate few who retire on an affluent income. Even without tax advantages, income is unequally distributed within Canada's elderly population: most have low or modest incomes obtained mainly from government programs, while a minority enjoy comfortable incomes from savings, investments and private pension plans. Costly tax breaks, which help the poor least and the rich most, widen further the gap between the haves and have-nots.

CONCLUSION

Canada's retirement income system is out of balance.

Private pension plans are beset with problems - incomplete coverage of the labor force, inadequate vesting, portability and survivor's provisions, and poor protection against inflation - which render them inadequate for the minority of employees who have them and irrelevent for the majority who do not. Registered Retirement Savings Plans are the preserve of well-to-do professionals and other affluent Canadians, and do not make up for the limited coverage of private pension plans: RRSPs and private pension plans together cover only 49 percent of the work force. The tax part of the pension system - the age exemption and tax deductions for pension and interest income as well as contributions to private pension plans, RRSPs and the Canada and Quebec Pension Plans - turns logic and equity upside down, favoring those who need help least and driving an additional wedge between the incomes of the have and have-not elderly.

The Canada and Quebec Pension Plans which make up the second level of the retirement income system are superior in design to private pension and savings plans. They cover the entire labor force - employees and the self-employed, women and men, the working poor and high-paid executives alike, part-time as well as full-time workers, persons employed by private industry and by government, young workers and old. They enable all men and women working in the labor force to earn a pension for the whole of their career, and guarantee them pension contributions made by all their employers. The Canada and Quebec Pension Plans fully protect both pension credits and payments against inflation, and provide survivor's, disability and death benefits in addition to a retirement pension.

However the Canada and Quebec Pension Plans were designed to supplement private pension plans and personal savings; they will replace only 25 percent of insurable earnings up to the average wage when the plans mature. As a result of the weaknesses of private pension and savings plans, the second and third levels of the retirement income system are incapable of adequately replacing pre-retirement income for most working Canadians.

The failure of public and private pension plans puts heavy pressure on the income security programs that form the foundation of the retirement income system. The statistics speak for themselves. Half of those 65 and older receive the Guaranteed Income Supplement, an anti-poverty program originally intended to serve a small group of retired Canadians who had low incomes during their working years. The average senior citizen gets about half of his or her income from public sources (Old Age Security, the Guaranteed Income Supplement, the Canada or Quebec Pension Plan and provincial income supplements). One elderly Canadian in four is below the poverty line; elderly women living on their own are especially vulnerable to poverty - 60 percent were poor at last count.

The failure of private pension and savings plans leaves most Canadians heavily reliant on the public parts of the pension system. The three-tier retirement income system that makes sense in theory - the Old Age Security and Guaranteed Income Supplement programs to ensure a basic income floor for all the aged, the Canada and Quebec Pension Plans and private pension and savings plans to meet the income replacement objective - in reality is more a two (and, in some cases, one) level system for most pensioners. Without major pension reform, the swelling ranks of this country's aged - who will almost triple in number by the middle of the next century - will place a mounting burden on our unbalanced retirement income system.

APPENDIX A

PROVINCIAL TAX BENEFITS FOR THE AGED

The following lists provincial and municipal property and other tax credits, rebates, exemptions and deferrals to which aged persons may be entitled. The descriptions of the programs are intended only to give a general sense of how they operate.

NEWFOUNDLAND

School Tax Exemption

Persons 65 and over are exempt from payment of local school taxes (including poll tax and real property tax).

PRINCE EDWARD ISLAND

Tax Deferral for Senior Citizens

Guaranteed Income Supplement recipients may defer provincial and municipal real property taxes in respect of a principal residence. The deferred tax (plus any interest) becomes due when the owner dies or conveys the property to a person other than his or her spouse.

NOVA SCOTIA

Property Tax Rebate for Senior Citizens

Homeowners who receive the Guaranteed Income Supplement or Spouse's Allowance are eligible for a rebate of 50 percent of net municipal residential property taxes paid in the previous year.

NEW BRUNSWICK

Property Tax Assessment Exemption

Single property owners with an income under $7,000 can apply to have the taxable assessed value of their property reduced by $8,000.

Residential Property Tax Credit

Property owners are eligible for a property tax credit equal to $1.50 per $100 of assessed value in urban areas and $0.85 per $100 assessment in local service districts and unincorporated areas.

QUEBEC

Property and School Tax Rebate

Quebec residents who pay property and school taxes are eligible for a rebate which is calculated as 40 percent of the first $1,000 of school and property taxes less 2 percent of taxable income.

ONTARIO

Property Tax Grant for Seniors

Elderly homeowners are eligible for a rebate of up to $500 of municipal property taxes paid on their principal residence. Aged renters can claim 20 percent of their rent up to $500 a year. There is no income test for the program.

Retail Sales Tax Grant

All elderly Ontario residents, regardless of their income, are eligible for a sales tax grant of $50 a year.

MANITOBA

Cost of Living Tax Credit

This credit is calculated as 3 percent of the claimant's total personal income tax exemptions less 1 percent of net family income. If only one spouse of a couple claims the credit, the formula is 3 percent of total personal exemptions plus 3 percent of total personal exemptions of the spouse less 3 percent of the marital exemption less 1 percent of family income.

The maximum credit is $193.80 less 1 percent of OAS for a single person 65 or older and $387.60 less 1 percent of OAS for a married couple both of whose members are aged.

Property Tax Credit

This credit equals the lesser of: (1) 20 percent of 1984 rent payments in Manitoba plus net property taxes paid in 1984 plus Resident Homeowner Tax Assistance and (2) $625 minus 1 percent of family income (minimum $325). The maximum credit is $625.

Pensioner Tenants' School Tax Assistance

Tenants 65 and older (as well as those 55 to 64 who receive half or more of their income from retirement pensions) are eligible for financial assistance to cover 10 percent of rent above $1,625 for 1984.

The maximum benefit is $175 for each tenant household.

Pensioner Homeowners' School Tax Assistance

Homeowners 65 and older (as well as those 55 to 64 who receive half or more of their income from retirement pensions) are eligible for a rebate of school taxes above $162.50. The claimant's income does not affect the amount of rebate.

The maximum benefit is $175 for each homeowner household.

SASKATCHEWAN

Senior Citizen's School Tax Rebate

Homeowners 65 or older are eligible for a rebate of municipal and school taxes paid on their home and/or farm property.

The minimum rebate is $50 and the maximum is $655 per year.

Renters' Property Tax Rebate

Renters of all ages are eligible for a rebate equal to 5 percent of total rent, to a maximum of $150 a year. Elderly residents who rent their principal residence and own other property may also qualify for the Senior Citizen's School Tax Rebate, but combined benefits under the two programs cannot exceed $425 a year.

Saskatchewan Tax Reductions

Lower-income taxfilers 65 or older are eligible for a reduction in their Saskatchewan income tax. The tax reduction is equal to $210 less 30 percent of the difference between provincial income tax and $210.

The maximum tax reduction for aged taxfilers is $210.

ALBERTA

Property Tax Reduction

This property tax rebate is available to homeowners 65 or older, widowed homeowners aged 60 to 64 whose deceased spouse was 65 or older and eligible for the program at the time of death, and widowed persons 55 to 64 receiving a pension under the Widow's Pension Act. The homeowner must occupy his home for at least 120 days during the year and not have claimed any Senior Citizen Renter Assistance Grant for that year.

The maximum property tax reduction is the lesser of $1,000 and actual property taxes.

BRITISH COLUMBIA

Homeowner Grant

Homeowners 65 or older are eligible for a grant equal to the lesser of $630 and actual property taxes (less $1).

Land Tax Deferment Program

Homeowners 65 or older can defer property taxes in excess of $630 on their principal residence. Taxes and interest (charged at 8 percent a year) become payable when the dwelling ceases to be the person's principal residence.

YUKON

Homeowner's Grant

Elderly homeowners are eligible for a reduction in property taxes equal to the lesser of $350 and 75 percent of actual property taxes.

NORTHWEST TERRITORIES

Senior Citizens' Land Tax Relief

Municipalities can waive half of municipal taxes levied against homeowners 65 or older.

APPENDIX B

OTHER PROVINCIAL FINANCIAL ASSISTANCE FOR THE AGED

The following lists provincial rental assistance and other programs available to the aged other than provincial income supplements and the various tax rebates, credits and exemptions described in Appendix A. Our account is intended only to give a general sense of how the programs operate.

NOVA SCOTIA

Rental Assistance Program

Singles and couples who receive the Guaranteed Income Supplement or Spouse's Allowance and aged singles whose income is below $9,800 are eligible for a rental subsidy if their rent exceeds 30 percent of their income. The subsidy varies from 50 to 75 percent (of the rent exceeding 30 percent of income), depending on their income.

A single person whose gross monthly income is $395 or less and whose rent is $245 or more a month may receive up to $95 a month in rental assistance. A couple whose combined gross monthly income is $500 or less and whose rent is $320 a month or more may receive a rental subsidy of up to $111 a month.

NEW BRUNSWICK

Rental Assistance for the Elderly

Renters aged 50 and over (and disabled persons) whose assets do not exceed $15,000 are eligible for a rent supplement if their rent exceeds 30 percent of their total income.

A single renter can get a supplement of up to $113 a month provided that monthly income is under $740 and monthly rent is under $225. The maximum supplement for a couple is $131 a month where monthly income is under $820 and monthly rent no more than $250.

QUEBEC

Logirente (Housing Allowance for the Elderly)

Aged homeowners, renters and boarders are eligible for an allowance if their shelter costs are more than 30 percent of their income. Eligible shelter costs include a room (but not board), rent, utilities, school and municipal taxes and mortgage interest (but not principal). The market value of household assets cannot exceed $50,000, excluding principal residence, home furnishings and a car.

The subsidy is equal to 75 percent of the amount that shelter costs (to a monthly maximum of $170 for roomers, $235 for single renters/owners and $250 for couples) exceed 30 percent of income, less any property tax rebate. Persons with (1982) annual incomes above the following limits are not eligible for a shelter allowance: $6,800 for roomers, $9,400 for single owners/renters and $10,000 for couples.

The maximum Logirente payment in 1984 is $48.75 for a room, $97.50 for a single owner/renter and $110.00 for a couple.

ONTARIO

Waiver of Health Insurance Premiums

Persons aged 65 or more are exempt from Ontario Health Insurance Plan premiums. These are currently $340.20 a year for a single person and $680.40 a year for a couple.

Home Heating Grant

Homeowners and tenants who qualify for the Property Tax Grant also will receive a home heating grant of $20 per household paid in the spring of 1984. The Home Heating Grant program ends this year.

MANITOBA

Shelter Allowance for Elderly Renters (SAFER)

A monthly benefit of up to $140 is available to Manitobans aged 55 and older whose rent takes up more than 25 percent of their income. The maximum SAFER payment goes to single persons with income under $7,560 and rent of $325 and

to couples under $9,240 with a maximum claimable rent of $350 monthly. Smaller payments go to elderly renters with incomes above those limits. SAFER benefits offset the amount of Property Tax Credit to which a renter is entitled.

ALBERTA

Waiver of Health Insurance Premiums

Persons aged 65 or over are exempt from Alberta Health Care Insurance Plan premiums. These are currently $168 a year for a single person and $336 for a couple.

Senior Citizen Renter Assistance Grant

This benefit is available to tenants 65 or older, widowed tenants 60 to 65 whose deceased spouse was 65 or older and eligible for the program at the time of death, and widowed persons 55 to 64 receiving a pension under the Widow's Pension Act. A married couple can only file one claim per year for the same accommodation.

The maximum annual grant is $1,200 for persons in the private rental market, $1,000 for mobile home owners on rented land, and $600 for tenants living in subsidized housing.

Senior Citizen Home Heating Protection Program

A rebate of $100 per year is paid to homeowners 65 or older, to widowed homeowners 60 to 64 whose spouse was 65 or older at the time of death and to widowed Albertans who receive a pension under the Widow's Pension Act. The homeowner must occupy his home for at least 120 days during the year.

BRITISH COLUMBIA

Waiver of Health Insurance Premiums

Persons with low incomes, both aged and non-aged, are exempt from public health insurance premiums. These are currently $180 a year for single persons, $336 for couples, and $384 for a family of 3 or more.

Shelter Aid for Elderly Renters (SAFER)

Renters aged 65 or older who pay more than 30 percent of their incomes for rent may be eligible for a shelter subsidy. The subsidy is calculated as 75 percent of the difference between the rent paid and 30 percent of income. However, there are limits on claimable rent; these are $330 a month for a single person and $365 for a couple. Persons with higher rents may still receive a supplement, but only the part of rent equal to the limit is taken into account in calculating benefits. SAFER is not open to the elderly in a long-term health care facility or subsidized accommodation.

The maximum monthly benefit is $170.48 for a single person and $40.44 for a couple.

YUKON

Pioneer Utility Grant

Persons 65 or older and surviving spouses 60 or older are eligible for an annual grant of $480. Applicants must reside 183 days a year in their accommodation, 90 days of which are during the winter months. Persons living in subsidized housing are not eligible for the program.

APPENDIX C

Difference Between Federal/Provincial Income Security Benefits for Aged Singles and the Poverty Line, by Community Size and Province, 1984*

	500,000 and over	100,000 - 499,999	30,000 - 99,999	Less than 30,000	Rural
Nfld		-$2,769	-$2,186	-$1,520	-$ 688
P.E.I.				- 1,520	- 688
N.S.		- 2,550	- 1,967	- 1,301	- 469
N.B.		- 2,769	- 2,186	- 1,520	- 688
Quebec	-$3,266	- 2,769	- 2,186	- 1,520	- 688
Ontario	- 2,560	- 2,063	- 1,480	- 814	18
Manitoba	- 3,078	- 2,581	- 1,998	- 1,332	- 500
Sask.		- 2,469	- 1,866	- 1,220	- 388
Alberta	- 2,126	- 1,659	- 1,046	- 380	452
B.C.	- 2,799	- 2,302	- 1,719	- 1,053	- 221
Yukon				- 320	512
NWT				- 620	212

* figures with negative signs are below the poverty line

APPENDIX D

Difference Between Federal/Provincial Income Security Benefits for Aged Couples and the Poverty Line, by Community Size and Province, 1984*

	500,000 and over	100,000 - 499,999	30,000 - 99,999	Less than 30,00	Rural
Nfld		-$ 961	-$ 131	$ 702	$1,866
P.E.I.				702	1,866
N.S.		- 523	307	1,140	2,304
N.B.		- 961	- 131	702	1,866
Quebec	-$1,627	- 961	- 131	702	1,866
Ontario	369	1,035	1,865	2,698	3,862
Manitoba	- 1,522	- 556	274	1,107	2,271
Sask.		- 421	409	1,242	2,406
Alberta	653	1,319	2,149	2,982	4,146
B.C.	- 431	235	1,065	1,898	3,062
Yukon				3,102	4,266
NWT				2,502	3,666

* figures with negative signs are below the poverty line

APPENDIX E

Registered Pension Plan Contributors, By Income Level, 1981

Income Level	Proportion of Tax Filers	Average Contribution
Under $6,000	1.8%	$ 163
$ 6,000 - 9,999	6.1	274
10,000 - 13,999	17.3	347
14,000 - 19,999	34.4	665
20,000 - 24,999	45.8	927
25,000 - 29,999	51.5	1,162
30,000 - 34,999	54.2	1,403
35,000 - 39,999	53.8	1,635
40,000 - 49,999	50.5	1,888
50,000 - 69,999	43.8	2,214
70,000 - 99,999	24.4	2,528
100,000 and over	16.5	2,834
average	22.9	991

FOOTNOTES

1. The indexing formula for OAS, GIS and Spouse's Allowance works as follows. To determine the benefit rate for the second quarter of the year (April through June), for example, the rate for the first quarter is multiplied by: the average CPI for the previous November, December and January divided by the average CPI for August, September and October.

2. The Spouse's Allowance is reduced by $3 for every $4 of the couple's combined monthly income until the OAS equivalent is eliminated, after which the GIS equivalent and the pensioner's GIS are each reduced by $1 for every $4 of additional combined monthly income.

3. Our calculations include the increase in Ontario's GAINS benefit for single GIS recipients (by $17 in July and another $17 in December). Alberta also provides a pension to near-aged (55 to 64) widowed persons. The monthly benefit is equal to $604 less 1/12 of the applicant's "non-exempt" annual income; the latter includes benefits from the C/QPP, Worker's Compensation, unemployment insurance, survivor benefits from the spouse's private pension plan, private disability insurance and the Spouse's Allowance; 75 percent of income from investments, dividends, private pension plans, life insurance, etc; 75 percent of net employment earnings.

4. See National Council of Welfare, 1984 Poverty Lines (Ottawa: March 1984).

5. National Council of Welfare. Sixty-Five and Older (Ottawa: February 1984), pp. 41-44.

6. Statistics Canada. Social Security (National Programs) Vol. 5 Old Age Security, Guaranteed Income Supplement and Spouse's Allowance, 1982 (Ottawa: Minister of Supply and Services Canada, 1982), pp. 11-14.

7. Quebec has amended the definition of disability under the Quebec Pension Plan to make benefits available to persons whose disability prevents them from pursuing their regular employment, not (as in the past and in the CPP) "any" line of work.

8. Persons who use the childrearing dropout do not actually have to leave the labor force.

9. Ciuriak, Dan and Harvey Sims. Participation Rate and Labour Force Growth in Canada (Ottawa: Long Range and Structural Analysis Division, Department of Finance, 1980), pp. 46-47. The low projection is 65.3 percent of women 20 and 65 in the labor force by 2000; the high projection is 70.6 percent. The projection for men 20 and over for 2000 is 79.2 percent.

10. Unless otherwise indicated, all private pension plan statistics in this chapter are from Statistics Canada, Private Pension Plans in Canada, 1980 (Ottawa: Minister of Supply and Services Canada, 1982) or from earlier editions of that report.

11. Health and Welfare Canada. Pension Plan Coverage by Level of Earnings and Age, 1978 and 1979 (Ottawa: Planning, Evaluation and Liaison Division, Income Security Programs Branch, 1982), p. A-9. The self-employed are excluded.

12. The exceptions are British Columbia, Prince Edward Island and Newfoundland.

13. Economic Council of Canada. One in Three: Pensions for Canadians to 2030 (Ottawa: Minister of Supply and Services Canada, 1979), p. 74.

14. Préfontaine, Raymond and Yves Balcer. "Interaction of Labour Mobility Rates and Vesting Rules on Years of Pensionable Service", The Retirement Income System in Canada: Problems and Alternative Policies for Reform: Volume II. (Ottawa: Task Force on Retirement Income Policy to the Government of Canada, 1979), Appendix 8.

15. Royal Commission on the Status of Pensions in Ontario. Report. Vol. II. Design for Retirement (Toronto: Government of Ontario, 1980), p. 25.

16. Brown, Joan C. How Much Choice? Retirement Policies in Canada (Ottawa: Canadian Council on Social Development, 1975), p. 167. The author cited the Canadian Labour Congress as her source of information.

17. Préfontaine and Balcer.

18. Royal Commission on the Status of Pensions in Ontario, ibid, p. 213.

19. Cited in The Retirement Income System in Canada: Problems and Alternative Policies for Reform: Volume I (Ottawa: Task Force on Retirement Income Policy to the Government of Canada, 1979), p. 50.

20. The February 1984 federal Budget has proposed major changes in tax assistance for retirement savings. These proposals are summarized at the end of this section.

21. RRSP calculations in this section are by the National Council of Welfare, using data from Revenue Canada, Taxation Statistics, 1983 Edition (Ottawa: Minister of Supply and Services Canada, 1983), Tables 2 and 3.

22. Department of Finance. Analysis of Federal Tax Expenditures for Individuals (Ottawa: November 1981), p. 19.

PENSION TERMINOLOGY

Benefit Formula A provision in a pension plan that establishes the method by which the amount of an employee's pension is to be calculated, the amount being determined by multiplying some fraction of the employee's earnings, or a fixed dollar amount, by the years of service under the employer's pension plan.

Best Average Benefit Formula A benefit formula where the earnings component is the average level of earnings during a specified number of the highest paid years.

Canada Pension Plan (CPP) A mandatory earnings-related pension plan administered by the federal government and financed by employee and employer contributions. The CPP guarantees a retirement pension at age 65 equal to 25 percent of a member's average lifetime earnings, up to a ceiling. The ceiling is based on the year's maximum pensionable earnings (YMPE), which is $20,800 and will eventually equal the average industrial wage. The CPP also provides a disability pension, disabled contributor's child benefit, survivor's pension, orphan's benefit and a lump-sum death benefit. The CPP covers workers outside Quebec; in Quebec, the Quebec Pension Plan provides parallel coverage.

Career Average Benefit Formula A benefit formula where the earnings component is an employee's average earnings during the whole period of coverage under the plan.

Credit-splitting Dividing pension credits accumulated during a marriage or common-law relationship between the spouses.

Deferred Annuity or Vested Deferred Pension A life annuity payable beginning at some future date (usually the retirement age) to an employee whose membership in a private pension plan has terminated after becoming vested and before the normal retirement age of the plan.

Defined Benefit Plan A pension plan that provides a pension whose amount is determined by a defined benefit formula that relates the pension to the employee's number of years of service and, in some plans, to some measure of average or recent levels of pay. An example is a final average plan in which the annual pension is equal to the number of years of service, up to 35, multiplied by 2 percent of the employee's average salary over the last five years of service (i.e., a maximum pension of 70 percent of average salary over the last five years of service).

Defined Contribution Plan A pension plan where the pension is determined by the amount of annuity that the accumulated contributions plus interest can purchase at retirement. Contributions are normally fixed as a percentage of the employee's salary and may be made by the employee and employer or by the employer alone. These are often called "money purchase plans" (e.g., RRSPs).

Drop-out Provision Allows a pension plan member to exclude certain years when calculating pension entitlements. For example, the C/QPP allow members to drop out up to 15 percent of their working life so as not to penalize them for periods of little or no income due to unemployemnt, illness, attendance at school, etc. In addition, the childrearing drop-out allows C/QPP members to exclude from lifetime earnings the years when their children are under age 7; some parents (usually women) remain at home or work part-time during these years and so have low or no earnings.

Final Average Plan A pension plan where the defined benefit formula is based on the average level of earnings in the final few years before retirement (usually from three to ten).

Flat Benefit Plan A pension plan where the defined benefit formula provides a fixed amount of pension for each year's service, irrespective of level of earnings (e.g., $15 per month pension per year of service).

Fully Funded A pension plan that at any particular time has sufficient assets to provide for the payment of all pension and other benefits required to be paid to current and past members.

Guaranteed Income Supplement (GIS) A federal income security program for the low-income aged. Benefits are indexed quarterly to the Consumer Price Index and paid on a monthly basis. The maximum benefit ($267.33 a month for single pensioners and one-pensioner couples and $412.22 a month for pensioner couples, for the second quarter of 1984) is reduced by 50 cents for every dollar of other income (other than Old Age Security benefits).

Joint and Survivor Provision Found in a pension plan that reduces a member's retirement pension in order to provide a survivor benefit for his or her spouse.

Locking In A requirement that an employee's and the employer's contributions on his behalf made to a pension plan after a certain date cannot be forfeited or paid as a cash withdrawal if the employee, on termination of employment, has reached a certain age and/or has completed a certain number of years of either service or of plan membership.

Money-Puchase Plan See defined-contribution plan.

Old Age Security (OAS) The basic federal income security program for all Canadians 65 or older. The monthly benefit ($266.28 for the second quarter of 1984) is taxable but is not included as income for purposes of computing GIS benefits. Benefits are indexed quarterly to the rise in the Consumer Price Index.

Pay-As-You-Go A pension plan which collects just enough money each year through contributions to cover administrative costs and current pension benefits.

Portability Arrangements for the transfer of a member's pension credits either to another pension plan or to a Registered Pension Account when changing jobs.

Private Sector Plan A private pension plan sponsored by an employer in the private sector.

Public Pension Plans Old Age Security, Guaranteed Income Supplement, Spouse's Allowance, provincial income supplements for the aged, the Canada and Quebec Pension Plans.

Public Sector Plan A private pension plan sponsored by an employer in the public sector.

Quebec Pension Plan (QPP) A mandatory earnings-related pension plan administered by the Quebec government. The QPP and CPP are basically the same in design.

Registered Pension Account (RPA) A proposed tax-assisted retirement savings plan that will allow employer contributions on behalf of an employee and will lock in contributions.

Registered Pension Plan (RPP) An employer-sponsored pension plan that has been accepted for registration (thereby qualifying for tax assistance) under the Income Tax Act.

Registered Retirement Savings Plan (RRSP) An individual retirement savings vehicle provided under the Income Tax Act. Taxes are deferred on the contributions and the interest income they earn until the savings are withdrawn, usually as a retirement annuity. Contributions are tax-deductible up to a specified limit (in 1985, 18 percent of earnings up to a deduction limit of $10,000).

Spouse's Allowance (SA) A federal income security program for couples one of whose members is receiving GIS and whose other member (the Spouse's Allowance recipient) is aged 60 to 64. A recipient whose spouse dies can continue receiving the Spouse's Allowance until he or she reaches 65. Maximum SA benefits are, for the second quarter of 1984, $472.39 - the sum of an OAS pension and maximum GIS at the married rate. Like OAS and GIS, SA is paid monthly and benefits are indexed quarterly.

Survivor Benefits Benefits paid to the beneficiary (typically a spouse) of a pension plan member who dies. This benefit is generally equal to half of the pension accrued at the time of the member's death.

Vesting The member's right, on termination of employment before retirement under a pension plan, to all or part of the benefit that has accrued under the normal benefit formula of a defined benefit plan, or to the accumulated contributions held on his behalf in a defined contribution plan, up to the date of termination of employment. In simple terms, the pension plan member is entitled to his employer's as well as his own contributions when he leaves his employer. The benefit is often payable as a deferred pension upon retirement.

Year's Basic Exemption (YBE) C/QPP contributors do not pay contributions on earnings below this level, which is 10 percent of the YMPE. The YBE is $2,000 for 1984.

Year's Maximum Pensionable Earnings (YMPE) The maximum earnings for which contributions can be made to the C/QPP. The YMPE is $20,800 for 1984. Thus employers and employees each contribute 1.8 percent of employee earnings between the YBE ($2,000) and the YMPE ($20,800) to a maximum of $338.40 for 1984. The self-employed pay 3.6 percent of their earnings between the YBE and the YMPE.

MEMBERS OF THE NATIONAL COUNCIL OF WELFARE

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council includes past and present welfare recipients, public housing tenants and other low-income citizens, as well as laywers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare have dealt with a wide range of issues on poverty and social policy in Canada, including: income security, medicare, poverty lines and poverty statistics, pension reform, the aged, taxation, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, and poverty coverage in the press.

On peut se procurer des exemplaires en
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